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THE REFERENCE SHELF

Volume V Number 8

INSTALLMENT BUYING

Compiled by
HELEN M. MULLER

NEW YORK
THE H. W. WILSON COMPANY
1929

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INTRODUCTION

It is reasonable to suppose that every person in the United States who has any economic responsibility whatever has at least heard of installment buying. The practice itself comes to us with the laws of the Romans; discussion of it in modern business is largely confined to this country because we have the facilities, the resources and the temperament to permit the expansion which accompanies its use.

The installment plan has been used in American real estate transactions for over one hundred years, in the sale of sewing machines and pianos for fifty years and in the sale of automobiles for more than a decade. About 1920, however, this economic giant began to attain adult proportions. His growth since then has been phenomenal, and his invasion of new fields has caused a great stir in economic circles. There is much dispute as to whether it is profitable to sell, or desirable to buy, such articles as radios, electric household devices, jewelry and clothing on installments, and as to the dividing line between the fields of unnecessary luxuries and of those things which may be classed as essentials to maintaining our present high standard of living.

Within the question of whether it is right or wrong, good or bad, to use an article while paying for it, rest the further points of how large first payments should be and how long the credit term may last, how extensive credit investigations should be and how strict the acceptance requirements, how much each individual should be permitted to buy and what percentage of a manufacturer's or dealer's sales may safely be made in this manner. The system has undoubtedly accelerated

production and consumption and the debate purports to settle whether this stimulation is temporary and harmful, or whether it can be permanently continued with benefit to all concerned.

The particular form in which the question is stated here has been chosen as including the greatest detail of controversy and allowing expression of many more opinions than the absolute acceptance or condemnation of the basic principle of deferred payments. Opportunity is thus provided for greater variety of argument than that permitted by the statement that partial payment plans, anywhere, at any time, for any article and to any amount are all right or all wrong.

This second revised edition contains the best of the 1929 material in eleven new general references, four negative ones and twenty affirmative, of which one, on the export trade, has been reprinted here.

HELEN M. MULLER

DECEMBER 10, 1929

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BRIEFS

RESOLVED: *That the volume and methods of the present system of installment buying are economically sound.*

INTRODUCTION

I. By installment buying we mean the purchase of articles by payment of part of the purchase price upon taking possession and fractional payments at stated intervals thereafter until the whole sum is paid.

II. By present system we mean that generally accepted and used by reputable manufacturers, retailers and finance companies at the present time.

III. It is understood that purchase of stocks, bonds and real estate is not included in the question.

AFFIRMATIVE

I. Installment buying has the social attributes necessary to ensure economic soundness.
   - A. The standard of living of the masses is higher than ever before.
     1. Installment buying places within reach of the mass of people articles of comfort and luxury previously unattainable.
     2. It makes homes happier.
     3. Credit selling and production on mass scale liberate more time.
        - a. Workers have leisure for widening their range of knowledge.
        - b. More products are consumed in the longer periods outside the workshop.

4. The system makes better citizens.
   a. It gives the masses an interest and share in the credit structure of the country.
   b. Possession of luxuries creates a better frame of mind for paying monthly life insurance protection for the family.
5. Installment buying brings material gains in automobiles, pianos, furniture and other articles for individuals and the nation.

B. The credit privilege shows achievement.
   1. Acceptance necessitates
      a. A certain earning scale.
      b. Savings for first payment.

C. Contentment and proper social adjustment are prevalent because of the
   1. Incentive to work and produce more.
   2. Guaranty of individual progress.
   3. Goal for savings.
   4. Self-respect, engendered by owning property.
   5. Large number benefited, greatly surpassing the few who use the system unwisely.
      a. Careful credit analysis prevents use by those who should not pledge future incomes.
   6. Income budgeting and thrift.
      a. Many would otherwise live up to their annual incomes and have nothing to show for it.
      b. The installment buyer looks ahead and plans his economic program.
   7. More and steadier employment.
   8. Added business success.

D. Installment buying discourages socialistic tendencies because

1. The difference between things available to rich and poor is steadily diminishing.
2. Labor relations are bettered.
   a. Acquisitiveness is inconsistent with labor unrest.
   b. Better working conditions are necessitated by the increased demands of the consumer.
3. Access is given, to people at large, to credit facilities formerly reserved for men of affairs.

II. Consumers' credit is the cause of a considerable proportion of the increase in wealth of this country.
   A. Thrift activities have increased continuously since its widespread use.
      1. Savings deposits have grown.
         a. Out of the larger incomes brought about by increased production more is saved.
      2. The amount of life insurance has been greatly augmented.
      3. Building and loan assets have expanded.
      4. There has been extensive and rapid absorption of investment securities.
   B. So-called luxuries have been real factors in increasing prosperity.
      1. Extension of the use of automobiles by many people of moderate means has enriched the country to an immeasurable extent.
   C. Installment credit is a natural evolution of credit.
      1. Producer credit was looked upon with as much suspicion at its start.
   D. No greater credit risk is necessary than before.

1. This form is susceptible to more highly specialized control than bank credit.
2. During the severe depression of 1920-21 leading finance companies suffered a credit loss of less than 1 per cent.
3. Risks in consumers' credit are in fact more liquid than those of producers' credit.

E. The national income is steadily increasing at the rate of 7½ per cent annually.

F. A profitable exchange is maintained without exorbitant rates.
1. Customers pay cash prices plus reasonable interest.
2. The dealer gets money cheap.
3. The bank makes a substantial profit.
4. Rates for financing are rapidly dropping from competition.

G. The system is an old form of credit extension which has been tried and found sound.
1. During the three-quarters of a century of the sewing machine business installment selling has not brought disaster to that industry.

H. The system has exercised a joint stimulus upon production and consumption.
1. We could not have our present high state of industrial civilization if thrift had been interpreted as foregoing modern machines, largely bought on the installment plan.
2. Our motor industry would not be the largest in the world without installment buying.
3. Vast sums would not have been expended on new roads.
4. The success of innumerable dealers in all commodities depends on the availability of

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consumers' credit provided by the financing companies.

I. Standardization and regulation are fast removing all cause for concern about the system.
   1. The larger financing companies are members of a national association which collects data leading to acceptance of standard policies by members.
   2. The continuous disregard of sound principles governing installment financing carries its own corrective.
   3. Only 2 per cent of outstanding credit is installment credit.

J. In the Pennsylvania miners' strike of 1925-26 the struggle to fulfill obligations was a tribute to the honesty of installment purchasers.
   1. Banks sustained no losses whatever.
   2. Finance companies' losses were very little above normal.

III. The commercial and industrial aspects of installment buying justify its continuance.

A. From the consumers' viewpoint the system is beneficial.
   1. It fosters the purchase of durable instead of perishable goods.
      a. The consumer buys with an eye to its outlasting the period of payment.
      b. Most articles sold on the installment plan conform to the standard of enduring value.
   2. It is a just method of payment for value received.
      a. The period of use between installments is paid in advance.
      b. Consumers should not be required to pay in advance for articles which only

yield full gratification over a period of several years.

3. By making purchasing power keep pace with producing power the worker is enabled to enjoy the fruit of his greater productivity.
4. Savings of a very real order are effected when installment purchases consist of articles which yield a lasting fund of enjoyment and efficiency.
5. The consumer is recouped for the cost of the system by large-scale production.
   a. The cost is lowered so much that, even with service charges it is still below what it would be without installment buying.
   b. New articles may be brought into use more rapidly than would otherwise be possible.
   c. High production insures the worker employment at good wages.
      (1) The automobile industry alone affords employment for millions.
6. Competition is just as effective in preventing exorbitant charges for installment credit as it is in other cases.
7. The automobile, made attainable by installment buying, is a necessity as well as a luxury.
   a. It is a form of wealth production as well as of wealth expenditure.
8. Installment buying maintains the wage level at a point to ensure a steadily increasing volume of consumption.
9. The consumer enjoys the satisfaction of acquiring without touching the principal of savings.

10. Installment buying is a better method of saving than a savings bank.
    a. A contract insures regularity of deposits.
11. In recent years there has been an increase in buying on installment basis of industrial machinery and other articles which earn money for owners and pay for themselves.

B. From the manufacturers' viewpoint the system is desirable.
1. It keeps down costs of production.
    a. It enables plants to operate more fully and evenly.
        (1) It allows steady utilization of plant, equipment, labor and administration personnel.
2. It widens the market and spreads market risk.
    a. People in all businesses are paying installments.
    b. Losses in one section of the country can be offset by earnings of the rest.
3. It stimulates invention.
4. It improves managerial methods.
    a. It upholds efficiency in production and employment.
5. It permits continued growth of corporate surplus.
6. It brings stabilized profit returns to investors.
7. Elimination of installment selling would paralyze some industries, affecting adversely the entire economic structure and the credit situation.

8. The system prevented severe recession after the war, avoiding a consequent fall in prices.
9. It smooths out curves of production and reduces fluctuation.
10. A large portion of home trade is founded on time payments.
11. Installment buying is upheld by national leaders of industry.
    a. Any appreciable increase in sales must come this way, almost all agree.
12. In case of a depression installment buying would speed recovery.

C. From the retail dealers' viewpoint the system is advantageous.
1. It is more scientific than the open account.
2. It yields increased profit to dealers on capital invested.
    a. Merchandise inventories turn over more rapidly.
3. It offers lower prices to consumers without cut-throat competition and commercial failures.
4. It provides for more profitable distribution and lower retail prices.
    a. Installment paper may be sold or discounted.
5. There is a deceased credit risk to dealers as compared with credit sales on open accounts.
    a. The customer has a stake, his down payment; the dealer has a lien on the product.
6. In a business depression dealers would fare better than formerly.
    a. There would be a better chance to sell non-liquid inventories because of

the improvement in market risk, furnished by installment selling.

7. The percentage of installment sales is not an alarmingly high figure.
   a. It is only 13 per cent of the country's retail trade.
8. In some cases, notably retail clothing, installment selling has reduced credit outstanding from 25 per cent to 8 per cent of sales.
9. It overcame an increasing sales resistance.
10. Unlike "booms" it affords steady progress without soaring prices.
11. The credit losses in installment buying are below those in the ordinary run of business.
12. No disaster can result except through unwise use of this method of selling.
13. The older financing companies have gained a wealth of experience in merchandising problems which is daily being used constructively in business.

D. The cardinal principles of financial responsibility of the purchaser, conservative methods of sale and the judicious choice of merchandise are daily becoming better appreciated, making for better protection of seller, consumer and business structure of the country.

NEGATIVE

I. Installment buying is a social menace.
   A. Indefinite increase of buying power is a delusion.
      1. In the event of widespread unemployment individuals will suffer.
         a. Their assets will be frozen.

b. There will be complete loss of individual buying power because credit has been stretched.

2. Every dollar the consumer pays for interest reduces his ability to buy merchandise.

3. Every dollar sent out of the community to some finance corporation lessens the purchasing power of that community.

B. It is unfair to the sane members of a community to allow the dangerous risks of installment buying.

1. The credit due honest men may be curtailed by credits granted to those who only pay when they must.

2. The eventual collapse will include those who had no part in the process as well as the injudicious.

3. Cash businesses are injured.

C. Installment buying results in greatly increased costs.

1. Interest is paid on the whole sum while only a fraction is owed.

2. The original price of the article is greater.

3. Cash prices are higher where installment sales are the rule.

4. The buyer pays the overhead and profits of the finance companies.

D. In case of repossession the consumer loses his down payment and all monthly payments and has nothing to show for it.

E. Installment selling methods are often dishonest.

1. Down payments and weekly payments are mentioned in advertisements but the length of term and total sum are omitted.

2. The extra cost is covered up by various means.

a. Large interest rates are made to appear nominal.

3. The system is presented as a boon to consumers when it is really to overcome production exceeding consumption.

F. Installment buying tends to destroy independence.

1. It binds the worker to keep his job under any conditions.

G. It is falsely assuming the properties of producers' credit.

1. It shifts the burden for which the merchant is prepared to the consumer who cannot carry it.
   a. The inventory problem is shifted.
   b. The merchant's credit is obtained through a cautious banker, while the consumer's is obtainable anywhere and often forced on him.
2. Producers' credit is incomparably safer.
   a. The producer reckons his costs more carefully than the normal consumer.
   b. A business is apt to be more stable than a job, however good.

H. Installment buying is injurious to the family and the individual.

1. Many families have had disastrous experiences trying to keep up payments.
2. Normal savings are obviously interfered with by installment purchases.
3. It is detrimental to personal psychology to be caught in payments beyond one's ability.
4. Living upon debts degrades the individual.
5. Many people are buying a number of things at once on the installment plan,

committing themselves to payments which will become impossible.

a. Easy payments bulked together become hard to meet.

6. Most families abuse the privileges of the system.

a. They mortgage their labor and saving powers.

b. They overreach their incomes in a frenzied desire to keep up with their neighbors.

c. The education and physical well-being of the children are neglected while the family buys luxuries on the installment plan.

d. Nearly twice as many people buy automobiles on the installment plan as buy household equipment.

I. Installment buying is undermining the moral stamina of the country.

1. It is to be deplored rather than applauded that the easy buying of luxuries tends to make the luxuries of today the necessities of tomorrow.

2. Business extravagance is leading to dangerous ostentation in daily living.

3. Society is becoming erratic and irresponsible.

a. Competition has reduced the purchaser's sense of responsibility.

(1) In some lines 95 per cent of installment buyers are delinquent to some extent.

4. Crimes of theft, forgery and false promise are increasing.

5. Political equilibrium is upset by installment buying.

6. Ethics, morals and religion are stained by the rot of selfishness.
7. Installment buying is not a boon to society, but a yielding to the temptation of easy money.
8. Pledging wages in advance is doing great harm, to young men and women in particular.
   a. It is breaking down character and resistance to temptations.
   b. It is breeding dishonesty.
   c. It robs them of the pleasure of achievement and of appreciation of the thing gained.
9. Unwise spending is becoming a national habit which will recur with each period of optimism.

II. Imminent collapse threatens our financial structure if installment buying is continued.
   A. In many industries super-saturation is already present.
      1. In the automobile industry the saturation point is being covered up by the artificial stimulation of installment sales.
   B. In case of defaulted payment during a period of falling prices the dealer can recover only a small fraction of his loss.
      1. Because of depreciation the used article will bring a lower price than the original cost to the dealer.
   C. In a sudden depression the explosion of this highly inflated credit will be disastrous.
   D. It increases waste and prices while reducing the net total of purchasing power.
      1. The increased productive capacity of the

nation is consumed in additional waste rather than in additional welfare.

E. In spite of new names installment buying is plain running into debt.

F. Merchants confess they are beginning to repossess more and more goods on account of non-payment.

G. Installment buying is robbing the future for the present.

1. The gain in expenditure can come only once, the first year.

III. It is detrimental to the substantial business interests of the country.

A. The consumer buys perishable goods and lets payments lapse when goods are outworn.

1. No one wishes to pay for something already used up.

B. Installment buying is a false economy of savings.

1. The consumer pays out more interest on the debt than he receives on his "protected" savings.

C. Installment buying exaggerates the peaks and valleys of the business cycle.

1. It defeats the enlightened efforts of economists and bankers to iron out the extremes of prosperity and depression.

D. It is a blind venture.

1. No reliable statistics or working data can be obtained for a guide in using this system.

E. The enormous sums outstanding on installment debts constitute a weakness in our economic structure that will be fatal when the tide of prosperity turns.

1. For every $7 of cash retail sales in the United States there is $1 of installment purchase.

F. Small payments, particularly in the automobile market, are dangerous.
   1. They are having an unfavorable effect on the used car market.
   2. They will soon begin to affect unfavorably the new car market.

G. Goods not entirely paid for are from a business viewpoint part of the unsold goods pressing on the market.
   1. These articles are the property of the seller till the last installment is paid.
   2. An element of uncertainty is introduced because the quantity is unknown.

H. The system destroys seasonal sales and discounts future sales.

I. As with other stimulants the "easy payments" dose must be increased constantly.
   1. Terms are being lengthened unwisely.
   2. Credit safeguards are being ignored.
   3. In a period of depression manufacturers and retailers who have stimulated sales unduly by deferred payments will suffer.
      a. The market will be flooded with second-hand goods from repossessions.
      b. The normal market will contract.
         (1) The frame of mind of the consuming public will be averse to going into debt.

J. Manufacturers will suffer as well as retailers from becoming involved in the credit situation.
   1. In order to maintain outlets and sustain dealer organizations they will have to offer advances and guaranties as relief measures.

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GENERAL DISCUSSION

MORE LIGHT ON INSTALLMENT SELLING[1]

Paying for things on "easy" terms has become such a conspicuous element in American life, and so large a factor in our prosperity, that the economists have been doing a great deal of worrying about it. Recently there have been several particularly exhaustive studies of installment selling which compel notice. A business man and student of economics writing in *The Yale Review* condemns the American development of partial payment buying as an economic sin for which retribution will be "automatic and inevitable." On the other hand, a University of Pennsylvania economist, after long and careful study, comes to the opinion that the new system is here to stay and performs a useful and important function in our economic structure. And a great western newspaper has been carrying on an investigation for six months which leads it to the conclusion that installment buying is, after all, economically sound. All of these reports have won editorial notice and comment pro and con.

If we turn first to the survey made by the Portland *Oregonian,* which that paper declares to be the most comprehensive and authoritative ever taken on the subject, we find many dissenting views recorded, with the more favorable predominating. Questionnaires were sent out to bankers in all the important cities of the country to be redistributed to leaders in various industries and trades. The answers to the questions are compiled as follows by *The Oregonian*:

[1] *Literary Digest.* 92:72-6. March 5, 1927.

		Yes	*No*
1.	Directly or indirectly increased production and made for general business prosperity?	1,080	131
2.	Come to stay?	1,200	62
3.	Had a tendency to level summer slump in buying?	804	353
4.	Affected the amount of savings accounts? (An ambiguously worded question, to which the answer has little significance, as it is not specific as to whether the effect is good or bad. Bankers contend it has had an excellent effect on saving.)	674	555
5.	Led to a dangerous credit situation?	674	622
6.	Materially increased the proportion of purchases of luxuries?	1,238	116
7.	Had the psychological effect of inducing purchasers to plunge without sufficient realization of eventual payment?	980	266
8.	Reduced the amount of money available for investment?	784	450
9.	Increased the cost of goods to the consumer?	981	315

* * *

From the replies as classified and digested for *The Oregonian* by the Lumberman's Trust Company Bank of Portland, the following statement of majority opinion is drawn up:

> Installment buying is the backbone of America's prosperity, by leveling out the production curve. It has almost banished unemployment, creating more jobs through the increased production made necessary by the tremendous consumer demand. It has reduced the average cost of necessities and luxuries through quantity manufacture. It has increased wages, encouraged thrift and ambition, prevented spasmodic business depressions and made it possible for the wage-earner of America to find contentment in the possession of those things which even the rich of other countries seldom can afford.

A minority are said to hold that "installment buying and selling is a menace, causing the workman to pledge his future and place a mortgage on his earning power which will tend to bring a reckoning day that will shake the credit structure, should hard times develop."

In the cities surveyed it was reported that on the average about 39 per cent of the workingmen's future wages was mortgaged for deferred payment purchases.

The purposes for which payments were made in these cities were proportionately as follows, we are told: "Homes, 28 per cent; automobiles, 35 per cent; clothing, 9 per cent; jewelry, radios and non-essentials, 10 per cent; and furniture, washing machines and essential household equipment, 18 per cent. . ."

The elaborate study of the *Social and Economic Consequences of Buying on the Installment Plan,* made by Prof. Wilbur C. Plummer of the University of Pennsylvania, and published in *The Annals* of the American Academy of Political and Social Science covers the whole field in a most painstaking manner. Professor Plummer reminds us that about $6,000,000,000 worth, or 15 per cent of all goods bought at retail, are purchased on the installment plan. The amount of installment debt outstanding at a given time is $2,750,000,000. This looks large but is not so great in proportion to the total amount of outstanding credit in the country, which exceeds $120,000,000,000. About half of the installment debt is for automobiles. It has been estimated that 75 per cent of all automobiles, 85 or 90 per cent of all furniture, 80 per cent of all phonographs, 75 per cent of washing machines, 65 per cent of vacuum cleaners, 25 per cent of all jewelry, and the greater part of all pianos, sewing machines, radios and electric refrigerators, are sold by partial payment. About $140,000,000 worth of clothing is sold per annum on this plan.

The tremendous increase in installment selling in the last six or seven years is attributed by Doctor Plummer chiefly to stiffening competition, modern advertising and high-pressure salesmanship, increased incomes of the working classes, and an ability of our producers to create beyond the ability of our consumers to purchase on a cash basis. The argument that people are going into debt for luxuries is met by this writer with the assertion that labor-saving devices in the home really release productive effort for other purposes. He also denies that installment buying necessarily takes wealth out of

productive channels, arguing that savings accounts and capital are turned into such channels while various goods are bought with current income. After all, he says, it is absolutely impossible to draw the line between neccessities and luxuries, since it is a matter of individual point of view. The tremendous rise of finance companies to take care of installment credits has added a new element to our banking system. Their services, of course, are highly paid for, and the compensation divided between them and the retailers means that "it costs the buyer as much more to buy on the installment as it would if he borrowed the money at an interest rate of from 11 to 40 per cent and paid cash."

Doctor Plummer finds it hard to say whether installment buying makes people more, or less, thrifty, but statistics show that during the period of intense development of the new system savings have grown, not only absolutely but considered in relation to the rise in prices, on a per capita basis and in proportion to income.

True, a piling up of credits may lead to a period of depression, but Professor Plummer seems to think that installment selling alone cannot take much of the blame for the next depression, because it is so small a part of our total volume of credit. He points out that commodity prices have been going down rather than up in the last six years, and that the installment plan by encouraging mass production has actually made automobiles cheaper. So the new system cannot be said to have produced price inflation. While installment buying, through piling up a huge quantity of unpaid-for goods in addition to unsold stocks, may prolong the next depression, Professor Plummer suggests that new extensions of installment credit may be just the thing to pull us out of the slump. His study of the effects of the system in the region affected by the anthracite strike of a year ago indicates "that selling on the installment plan is a sound way of doing business. . ."

Finally, we turn to the unfavorable article in *The Yale Review* by C. Reinold Noyes, a St. Paul business man and student of economics. He seems to agree with the railroad president who called it "the uneasy payment plan" the other day. After an extended canvass of the subject, Mr. Noyes asserts that the installment plan is the method of milking dry the now extremely prosperous working class. "The day of reckoning will come sooner or later." According to Mr. Noyes:

> From the standpoint of the consumer the disadvantages of financing prosperity on next year's income consist primarily of all the age old disadvantages of being in debt. From the standpoint of the producer, the fundamental weakness of this practice is its futility.

The partial payment plan, insists Mr. Noyes, is a "process of exaggerating peaks and valleys of the business cycle by which a fool and his money are parted for the years to come." He believes that:

> When the next period of general depression is upon us, those manufacturers and retailers who have been unduly stimulating their sales by the deferred payment plan will doubtless find their market flooded with second-hand automobiles and other apparatus of living, "repossest" from delinquent purchasers. At the same time their normal market will have contracted, due to the diminished purchasing power always present in hard times. Finally, the frame of mind of the consuming public will be adverse to going into debt, as it always is when the future is gloomy and uncertain. Each one of these factors operating singly is enough to depress any industry. The simultaneous combination of all three in these specific industries will greatly enhance the normal contraction of business, and the effects will be extremely severe. Perhaps such an experience is the only lesson which will cure these trades of a wholly fallacious and unsound economic policy. And, perhaps, the losses inflicted on the purchasers who cannot retain their partially paid-for utilities will also exercise a wholesome restraint in the future upon the consuming public.
>
> Since practically all consumers' installment paper is carried by retailers, or is discounted by them with banks or finance corporations "with recourse," any crumbling of this credit structure will immediately involve retailers only. Manufacturers will at first suffer only in respect of a contraction in their markets. Nevertheless, in an effort to maintain their outlets and to sustain their dealer organizations, it is highly probable that

many will, in the early stages of a depression, step in with relief measures and so become themselves involved, through advances and guaranties, in a gradually worsening credit situation which will eventually prove their own undoing as well.

Eventually, concludes this writer, the effects of the collapse will become general, "and the economic sins of our intemperate producers and consumers will be visited upon all of us"—"retribution for economic sin is automatic and inevitable."

INSTALLMENT SELLING[2]

One of the most interesting developments that has taken place in business policy since the war has been in the rather extraordinary expansion in time payment sales methods. While fundamentally there is nothing new in this method—the plan is probably as old as credit—its importance lies in its widespread application recently in a somewhat novel way. Modern installment selling has been most highly developed in the automobile industry. As a result of the extraordinary demands on this industry, new agencies especially designed for the purpose of financing the consumer have been developed. The remarkable success of this method of selling in the automobile industry has given a new impetus to the use of the time payment sales. Competitive conditions have now spread the plan to almost every conceivable salable object. Credit companies which originally specialized in automobile finance now handle a variety of things. Gradually the plan is spreading from goods having some permanency of value to purely consumptive goods, such as clothing.

While specialized credit companies do not finance by any means all classes of time payment business, competition is compelling more and more merchants to adopt the new plan in some form. One of the unfortunate

[2] From *Significant Economic Developments Since the Armistice*, by Herbert F. Boettler. *Journal of Accountancy*. 41:348-52. May, 1926.

results of this situation lies in the essential difference between the financing of time payment sales through a specialized agency and by the retailer or distributor himself. Where specialized agencies exist, much of the credit burden and the expense of collection has been shifted from the retailer to the finance company and the consumer. Under these conditions the problem of the producer and distributor becomes essentially one of gauging demand, and the burden of financing the deferred payments, together with the profit from the service rendered, is now placed upon the shoulders of the buyer. The finance company steps in between the buyer and the seller and charges the buyer for the privilege which it gives to him of spreading the deferred payments over a stated period of time. Consequently, in one sense the finance companies of this type can be thought of as specialized collection agencies engaged in the business of buying accounts receivable which are to be paid in accordance with some definite plan. The significant service which these companies have performed has been in definitely shifting the burden of time payments to the consumer who wishes to utilize this plan. Where special financial facilities are not available a considerable burden rests upon the retailer or distributor. Without a well developed collection department and the additional capital which the finance company supplies, the burden of financing deferred payments under existing competitive conditions is not easy.

However, aside from this particular phase of installment selling there are at least four essential questions that should be considered in making any appraisal of this plan of merchandising: First, what are the advantages of the plan as it is being utilized at present? Second, is it universally applicable on a sound basis to all classes of goods and services? Third, is the stimulus which it gives to buying power of permanent value? Fourth, does the plan contain any disadvantages or evils that are fundamental?

The outstanding advantage of the plan is that it enhances materially the immediately effective purchasing power of the buyer, to a degree depending upon the terms of payment that are arranged. Any plan that can bring about an expansion in current purchasing power naturally stimulates business and increases productive activity. . . This increase in the effective demand for goods by large numbers of people has proven beneficial in many ways, stimulating production, increasing employment, and thus further helping to expand current purchasing power. To this extent it has been of distinct advantage.

Second, the question is now quite frequently asked, Is installment selling equally applicable to all classes of goods and services? More and more, students of credit and finance are expressing the view that the dangers in installment selling lie in extending this plan on too large a scale to purely consumptive goods which have little permanency of value. The point made is that any article which is quickly consumed or depreciates rapidly should not be sold on the installment plan, as such goods can never constitute either a safe or sound basis for credit. Just where the line of demarcation lies between sound installment selling and unsound installment selling, as it is related to the character of goods sold, has not yet been satisfactorily explained. Opinions among business men, especially those who are utilizing this plan, differ very widely and it is quite probable that the question will not be definitely settled except through the rather expensive test of experience.

The third question with respect to this plan is whether or not the stimulus which it gives to immediate buying power is of permanent value. There are those who doubt that this plan really affords a means for permanently expanding buying power. They argue that in the long run business benefits very little by enabling an individual who has a monthly income of say $200 to

spend $500 to $700 at once by mortgaging his expected income for some months to come. His actual volume of purchasing power is limited over any short period and the mere fact that he spends more of it at one time than at another may be of immediate importance to current sales, but of little permanent significance. Whether this question is as simple as stated is to be doubted, reasonable as the argument appears superficially.

Fourth, does this plan contain any disadvantages or evils that are fundamental? So far as installment selling is concerned there is nothing to indicate that the plan, per se, is fundamentally unsound. The world has always done business through deferred payments and probably always will do business on this basis. The problem at issue really resolves itself into the question of the extent to which it is safe to base credit extension on an enlarged scale to the purchaser on the basis of anticipated earnings. That the practice is safe in the case of certain articles, especially those that have some permanency of value, as for instance a house, there is no question whatever, since this plan has been tried and tested for many years and has proven entirely successful. Whether it can be as soundly applied to the purchase of practically every type of goods and service is doubted by many. The present situation which we are facing is probably only another stage in that long succession which has taken place in the over-extension of various forms of credit in the past. At some time or other almost every class in the business community has abused its ability to create credit. Whether the individual will be wiser or more cautious in the use of credit facilities at present afforded him than business has been in the past is to be doubted. Those who are most concerned about the present plan of installment selling have this idea in mind. They fear that the individual will abuse his credit facilities and ultimately the entire community will suffer as a result. However, we should

bear in mind that the mere fact that the individual may abuse his privileges should not necessarily stamp installment selling of a legitimate character as bad, any more than we should consider banking, railroad credit or any other form of credit undesirable because at some stage or other in the development of business it has been abused. We must not forget that in these matters the only real test is that of experience. It is quite probable that we shall have to be taught a lesson which will show us definitely the limits within which installment credit is sound and where it is unsound.

GROWTH OF INSTALLMENT BUYING[3]

"Another new finance company?" the banker says to himself nearly every day. In former years he may have considered it to be bad practice for his customer to "hock" accounts and notes receivable, and the houses soliciting this class of business were only a few in number. Now the ethical ban has been in large part removed and the number of these commercial bankers, who also go under the names of discount, credit, finance, guaranty, brokerage and acceptance companies or trusts, is increasing so rapidly that no up-to-date figures are available. There are literally hundreds in such cities as New York, Chicago, Philadelphia, Boston, Pittsburgh, Detroit, San Francisco, Los Angeles, St. Louis and Baltimore.

The banker is interested in these finance companies because he is continually receiving inquiries from his customers regarding their collateral trust securities as well as their capital stock which they offer to the investing public, and he may be extending credit on a straight, or on a collateral note basis, to these companies that may or may not keep a deposit account with his bank.

[3] By D. Richard Young. *American Bankers Association Journal.* 17: 841-3. March, 1925.

Furthermore he is concerned in the general subject of installment buying because of its importance from a credit and economic standpoint, and in its broader social significance when unfavorable business conditions in any locality cause a general suspension of time payments. . .

Credit Lavishly Used

Of the total volume of business transacted in this country, it is estimated that the portion conducted on the cash-and-carry plan, which was a heritage of our forefathers, is just 5 per cent. The 95 per cent balance is sold by creating debt and is paid for at some later date. In other words, debt is nearly universal in this country, credit is lavishly used, and installment buying is encouraged in many luxury lines. The proverbial old-time family with a mortgage on the homestead is succeeded by the modern family with a mortgage on the homestead (if any), and on the furniture, piano, radio, books, fur coat, engagement ring and automobile.

Last year a man down in Georgia invited everybody in his county who was without debts to attend a barbecue at which he would be host. One jesting editor in Atlanta said he hoped that "all three" of the guests would enjoy themselves. . .

Automobile Financing

The pioneers in installment selling were not the automobile manufacturers, but the makers of pianos, organs and other musical instruments. Neither is the practice an especially recent one, for fifty years ago pianos were sold on terms very similar to those in use today. The major development, however, has come within the last twenty-five years, and is closely connected with the history of the automobile industry.

Though the production of automobiles commenced in 1895 with about 300 cars, these were of such a crude type that they were little more than experiments. It was not until about 1899 that the manufacturing of automobiles really began to take the form of an industry, with an annual production of about 4000 cars. Ten years later the rate was approximately 125,000, while last year the figure was over 3,500,000 passenger cars and trucks. The wholesale value of this output was $4,748,000 in 1899 and $2,279,000,000 in 1924, and the capital investment in plants $5,769,000 and $1,585,000,000 respectively. This is a record probably never before equalled in the industrial history of the world.

The sale of automobiles, which in the early days cost $1,000 or more, presented a problem in that the average purchaser did not have that much money available so as to pay cash. He might raise it by borrowing, but was loath to put a mortgage on his real estate, and his commercial bank did not favorably regard a loan, secured or unsecured, for this purpose. The salesman advanced the logical argument that the cost of a car was not an expense to be paid all at one time, but rather an investment whose value would be realized over several years and the payment for which could properly be spread over a similar period. In the language of the accountant, the car is a "deferred charge" or "deferred asset" which will eventually all be charged to expense by debits distributed over the period of its usefulness, or it might be regarded as a "fixed asset" against which a certain percentage "reserve for depreciation" would be charged each year. From this reasoning grew the plan of allowing the purchaser to buy the car by paying at least 30 per cent down, agreeing to pay the balance in monthly installments usually not to exceed one year, and giving a chattel mortgage on the car as security for the debt. Terms granted on pianos are usually more liberal than in the case of auto-

mobiles, and frequently run up to 36 months, which practice has brought forth severe criticism from some credit organizations.

Investment Capital Used

The above transaction leaves the automobile manufacturer or dealer with the proceeds of his sales represented one-third by cash and two-thirds by promissory notes due within a year's time. If he must carry this paper until maturity it will mean tying up his own capital for many months. If he can rediscount the notes he can again use the proceeds in manufacturing cars and thereby secure a higher rate of turnover of his invested capital and a more attractive profit thereon. The bank which buys the receivables exercises its proper function of lending money, subject to the manufacturer's contingent liability on any notes not paid.

But the banks which objected to loaning to an individual to buy a car did not care for the manufacturer's paper either, if it was in large amounts and secured by mortgages on automobiles sold to scattered individuals, for such security is very difficult to keep track of. Here was a new problem, but the solution was quickly forthcoming—organize companies to specialize in automobile paper, which would have the technical experience to handle such business safely and would use special methods and records in keeping track of the collateral. Thus the modern automobile finance company was born, although it is based on the same principle as the "factors" which for many years have operated in the textile centers.

The Federal Reserve Bulletin says:

> A recent study states there are today over 125 finance companies in existence with an aggregate capitalization of approximately $100,000,000 and a volume of business amounting to $1,200,000,000 annually. An official of one of the largest companies gives a smaller figure in each case—$65,000,000 capitalization and $800,000,000 as the volume of business. Another authority places the volume of receivables discounted in the east-

ern states alone at roughly half a billion dollars a year. The size of the individual company varies greatly, from a capital of a few thousand to several million. The average size of the company specializing in discounting receivables, however, is larger than that financing automobiles, as automobile business as a rule is much easier to obtain and new companies can acquire a reasonable volume in a shorter time. Further, as one writer explains, sellers of accounts receivable are, generally speaking, larger concerns than the average automobile dealer and will hesitate to place their business with a small or new company. Of the 125 companies mentioned above, 45 are incorporated under the laws of Delaware. In New York a number have incorporated under the banking laws of that state and are subject to regular examination by the state banking department. Both preferred and common stock are usually issued.

Most of these finance companies supplement their own capital by borrowing, and thereby are enabled to handle a much greater volume of business and to make larger profits. This borrowing may be from their own banks of deposit, by commercial paper sold in the open market, or by the distribution of securities to the investing public.

It is understood that to provide for the financing of electric lighting fixtures and installations on a deferred payment plan such organizations as the General Electric Company, Western Electric Company, Westinghouse Electric & Manufacturing Company, have organized their own discount subsidiaries or have made contracts with existing companies for similar service. . .

Approximately three-fourths of the automobiles sold in the United States during 1924 were on a time basis, according to Curtis C. Cooper, president of the General Motors Acceptance Corporation. The potential market is 90 per cent a credit market for low priced cars and 50 per cent for high priced cars. He believes that the industry—second largest in America—is founded on the fundamental necessity of transportation and not on any whim or passing fancy, that the purchaser of an automobile gets more for his money in actual value than in buying any other commodity, and that the satisfactory

results of the enormous credit used in marketing automobiles shows that the average citizen is basically honest and is a very desirable risk.

Mr. Cooper recently wrote:

> The General Motors Acceptance Corporation was organized in January, 1919, and has now acquired five years of experience. During this period the country has run the gamut of good times and bad. Our total experience for the period should, therefore, represent a cross-section of average conditions in our business.
>
> Since inception we have financed at retail close to 475,000 cars, involving credit in an amount in excess of $270,000,000, the retail value of these cars being approximately $400,000,000.
>
> In the year 1923, out of a total of $215,000,000 of credit extended in wholesale and retail transactions, both foreign and domestic, $104,000,000 represents retail credits extended to individual purchasers in all walks of life, in every state in the Union and in Canada and the British Isles, the retail value being approximately $153,000,000.
>
> On our books today we have $50,000,000 of retail notes outstanding and of this total only $25,000 of installments are over sixty days in default.

Charges Vary

The charges made by companies advancing money on accounts and notes receivable covering automobiles, clothing, musical instruments, electrical apparatus, office equipment and jewelry vary considerably, as would be expected from the diversity of the lines of business specialized in, the different procedures in discounting and loaning, and the various grades of creditors represented. Probably the most common rate is 1/25 of 1 per cent a day on the net face amount of receivables. This is at the rate of 14.60 per cent a year. Since only 75 to 80 per cent of the face amount is advanced the actual rate charged is correspondingly increased. In addition, there is usually a service charge of $5 per $1,000, which is supposed to cover the cost of the credit, accounting and legal departments which are at the disposal of customers.

For example, suppose a customer discounts $50,000 of six-months receivables, obtaining an advance of 75

per cent, amounting to $37,500, minus the service charge of $250, or $37,250. Interest on $50,000 at 1/25 of 1 per cent a day (payable monthly) is $3,650. At the end of six months the customer receives the balance between the amount advanced and the face amount, provided all the receivables are paid—$12,500. For the use of $37,-250 for six months he has, therefore, paid $3,900, or at the rate of 20.94 per cent a year. This figure would vary up or down as a result of the various scales of prices above mentioned, but is believed to be a fair estimate. It is to be noted that the cost to the customer does not include any losses from bad debts, unless they are discounted without recourse or are covered by credit insurance, in either case involving some extra cost for this item.

The expense of time-financing is borne by the purchaser. Stores that sell on installment or on open account usually charge higher prices than those selling on strictly cash terms. If the purchaser on time finds he can pay up the balance before it is due, he can secure a rebate for interest in most cases.

It should be kept in mind that when advertisers offer merchandise on ridicuously easy terms, in some instances automobiles for $5 a week, the car is not released on such a slender margin. The prospective purchaser goes to the dealer, "enrolls" under the plan by depositing the first $5 payment, gets his name on the "preferred order list," and by the time he has paid 30 per cent the dealer makes delivery of the car.

Imprisonment in Rhode Island

A surprising aspect of this subject was brought to light recently by investigators of the New York *World,* who found that in Rhode Island the poor debtor's law still remains in operation, after its abandonment as inhuman in almost every other part of the world. It is said that until a short time ago comparatively few

people were even conscious of its existence, yet it has been resorted to year after year, causing an extent of misery and injustice which is only now becoming apparent.

The report says:

The law permits the arrest and clapping into jail, without even the formality of a court hearing, of any men or women who have signed agreements to pay which they are unable or unwilling to fulfill. The victims have been mostly young men and girls, of almost no means, who have failed to complete installment payments promptly on furniture, jewelry or clothing.

The law gives incredible power to installment houses over the unfortunates whose poverty forces them to buy almost every necessity by small payments. Writs of arrest under the debtor's law may be purchased by installment houses in wholesale lots from the clerks of district courts. These writs bear the rubber stamp signatures of the clerks or judges. All that remains to be done is the insertion by the installment houses or other creditors of the names of the debtors to be arrested. Filled in by the installment house manager, agent or attorney, the arrest warrant may be served by a constable without further ado. The debtor may avoid arrest only by paying the bill to the constable. Upon arrest the debtor is taken directly to the city jail, a few miles from here [Providence] and locked up. He never gets a court hearing. He may be kept there as long as his creditor pays his board bill of four dollars a week to the state, or until he pays the debt, or until he has served six months when he is automatically released. Six months is the limit of debt imprisonment.

So quietly may this imprisonment be done that often the closest relatives and friends of the victim do not know what has happened to him until he comes out of jail. And when he is released after six months he finds he not only still owes the debt that sent him to jail, but also he must pay to his creditor the jail board bill of four dollars a week, interest on the debt, attorney's fees and other costs.

Imprisonment for simple debt is supposed not to be allowed in that state, but installment houses accomplish their end by turning contract actions into "trover," which may be legally defined as a wrongful interference with or detention of the goods of another, and "conversion," an unauthorized assumption and exercise of the right of ownership of goods belonging to another, to the alteration of their condition or the exclusion of the owner's rights.

Few of the victims arrested are acquainted with their legal rights and most are too ignorant to appeal to a lawyer for protection. The report states that the protection this law has given installment houses has led them to grow like fungi over Rhode Island. There is a large substratum of poverty in this state, tragic contrast to the great wealth which is visible on every side, and poor mill workers are dependent upon the installment houses for almost all their purchases. They sign the all-inclusive contract which delivers them, body and soul, to the shady merchants and shyster lawyers.

People of Rhode Island possessing enough property to cover claims that might be brought into court are never imprisoned. The attorneys for the complainants proceed against their property or holdings. The men and women imprisoned under the civil laws are those who have no property.

It was on the injustice of such a law that Charles Dickens, the English novelist, based so many pathetic scenes in his novels. His exposure of the poor debtor's jails led to the abolition of the law in England fifty-five years ago. The influence spread over most of the civilized world, and almost all the states in the Union tumbled over one another to rid themselves of debtor's laws, except those applying alone to fraud, but the agitation swept past Rhode Island unheeded. . .

There have been numerous reports that a government investigation of the entire subject of time selling is under way, but inquiry has failed to reveal any such effort. The cost of a complete survey would be very great and when completed it would be of comparatively little value. An investigation of the extent of the system in the retailing of two or three lines would be interesting; but it would be practically valueless because it would not give a basis for comparison.

BRIEF EXCERPTS

Frozen credits are often but not necessarily the concomitant of installment selling.—*Edwin R. A. Seligman. Proceedings of the Academy of Political Science.* 12:593. *January,* 1927.

Inasmuch as installment selling involves the use of credit, it is as old as the appearance of credit itself.—*Edwin R. A. Seligman. Proceedings of the Academy of Political Science.* 12:583. *January,* 1927.

From the economic point of view, the question is not as to the existence of the cost, [of installment credit] but as to the worthwhileness of the costs.—*Edwin R. A. Seligman. Proceedings of the Academy of Political Science.* 12:589. *January,* 1927.

In a survey made by the University of Oregon, covering 2,105 persons buying on installment, 69 per cent felt that it "encouraged running into debt," and 41 per cent that it "encouraged thrift." [4]—*American Federation of Labor Research Report. American Federationist.* 34:480. *April,* 1927.

Mr. Erskine, President of the Studebaker corporation, estimates that without installment buying only 35 per cent of the automobiles produced could be sold, and that this would mean unemployment for 1,500,000 persons now working in the automobile and allied industries.—*American Federation of Labor Research Report. American Federationist.* 34:477-8. *April,* 1927.

Installment selling has engendered new institutions and has created a new technique. While it has un-

[4] A number of persons replying to questionnaires answered "yes" to both the questions referred to here.

doubtedly come to stay, all manner of abuses and of perils which it would be shortsighted to deny have crept in. What is needed is a sober and impartial analysis of its true significance.—*Edwin R. A. Seligman. Proceedings of the Academy of Political Science.* 12: 594. *January,* 1927.

Because industry must get rid of its surplus products, potential labor power has been permitted to sit at the table of the knights of credit and has been recognized as good collateral for merchandise. Hence the present era of installment purchasing. Labor has, for the first time, been permitted to enter the court of capital.—*Benjamin A. Javits. Proceedings of the Academy of Political Science.* 12: 632. *January,* 1927.

Every individual piece of financing, whether to assist installment business or any other business, proceeds on the assumption that more money is to be received from consumers eventually for a given volume of goods than the banks advance in connection with the goods. If these expectations are not largely realized, a recession of business follows.—*William Trufant Foster. Proceedings of the Academy of Political Science.* 12: 617. *January,* 1927.

All sorts of people buy on the installment plan—rich and poor, prudent and imprudent, people with stable characters and people without. There are all sorts of people selling goods on the installment plan. Installment buying has its advantages and its disadvantages, dependent, first, upon the people who buy and second, upon the people who sell.—*Lawson Purdy. Proceedings of the Academy of Political Science.* 12: 608. *January,* 1927.

Consumer credit is no more vicious than any other form of credit; but, being for the most part in new and

sometimes inexperienced hands, it has suffered abuses. But, whether you or I like it or not, installment buying in some form or fashion and in some measure is in American business to stay; it is too necessary as a continuing outlet for massed production.—*John G. Lonsdale. American Economic Review.* 18: sup.53-4. March, 1927.

The business of selling goods and the business of extending credit should be divorced as far as possible. The cost of credit should be distinguished from the cost of the goods so that the buyer has no illusions about how much of the price is for the goods and how much is for the credit. The charge for the credit should be sufficient to meet the burden of expense.—*Lawson Purdy. Proceedings of the Academy of Political Science.* 12: 610. *January,* 1927.

Mr. John Balch Blood, of New York City, asserted that the installment system was an intermediate method of participating in the use of property, between renting, where there was no ownership by the user, and owning, where complete title was vested in the user. He thought it untenable to criticize an intermediary method as harmful to business interests where both of the ends, of each of which it savored, were beneficial.—*Proceedings of the Academy of Political Science.* 12: 633-4. *January,* 1927.

In installment purchasing, so far as it relates to the welfare of the families under our care, what is needed is a careful scrutiny of the business methods of each individual business that is selling such goods. The group that we are dealing with lends itself to exploitation more easily than the average group in the community, probably, because of the fact that there is greater ignorance, less experience, less good judgment.—*Bailey P. Burritt. Proceedings of the Academy of Political Science.* 12: 631. *January,* 1927.

The people not only can, but actually do, make more motor cars, furniture, fur coats, washing machines, refrigerators and no end of other commodities than they have the income to pay for. Nevertheless, in spite of this unquestioned ability and willingness of the workers, they would not have been allowed to make those goods, if the people who wanted to buy them had not been permitted to buy them on credit. In that case, a large part of the wages and dividends paid in connection with the production and sale of those goods, would not have been paid at all.—*William Trufant Foster. Proceedings of the Academy of Political Science.* 12:614. *January,* 1927.

What is the basic meaning of the extraordinary growth of installment selling which has taken place during the past ten years? It is this: *In a period of increasing productivity, industry turns out more consumers' goods than consumers can buy with their incomes.* That is the bed-rock fact. Any discussion of the subject which fails to take that fact into account is superficial. To overlook it is like making permanent plans for the traffic of a city on the assumption that each additional motor car brings with it its own parking space.—*William Trufant Foster. Proceedings of the Academy of Political Science.* 12:612. *January,* 1927.

The problem of safeguarding the credit structure is one common to all forms of credit. Loan sharks are of hoary antiquity; installment sharks have grown apace with the new business. Blue-sky legislation has been enacted to protect the innocent investor; similar laws albeit with a new name, will no doubt soon appear in the installment field. In the endeavor to ensure safety and to minimize losses, much progress is being made. As an example we have only to call attention to the opposing arguments of the recourse and the non-recourse systems in the automobile field, or to the controversy

as to terms which has played so significant a role in the deliberations of the finance companies.—*Edwin R. A. Seligman. Proceedings of the Academy of Political Science.* 12:593. *January,* 1927.

If people want to buy on the installment plan from people who want to sell on the installment plan, under terms and conditions mutually agreeable, by what possible means can you stop them? If it is an evil, it is here, and it is here because it is so interwoven into our family life as to make it almost impossible to eliminate. The people will never submit to class legislation limiting freedom of action so long as they do not harm others. Installment buying and installment selling is a trade between two people—certainly it does not involve the elements of crime—and those of us who buy and sell unwisely, either of necessities or luxuries, must take the consequences—and right there is the remedy which will satisfactorily adjust or eliminate the practice.—*S. G. Rosson. Commercial and Financial Chronicle.* 121:1636. *October* 3, 1925.

If I am correct, we must test the economy of installment selling, not by the old shibboleth of consumers' credit, but by a careful consideration of whether in each particular case it involves a productive or a destructive utilization of wealth. The statement is often made as if it were decisive that we must draw a line between necessities and luxuries. Here again, we need a clarification of ideas. What is luxury, and is all luxury reprehensible? Voltaire pertinently asked: "In a country where all the inhabitants went barefooted, could luxury be imputed to the first man who made a pair of shoes for himself? Or rather was he not a man of sense and industry? And with respect to the man who first had a shirt washed and ironed, I consider him an absolute genius, abundant in resources and qualified to

govern a state."—*Edwin R. A. Seligman. Proceedings of the Academy of Political Science.* 12: 586. *January,* 1927.

When viewed broadly from the standpoint of one interested in the operation of our *entire* economic structure and not merely from the standpoint of the individual interested solely in *one line* of business, installment sales seem to have the following effects on the total volume of sales:

1. *Temporary stimulation* arising from purchases made in anticipation of future income. In addition to to-day's egg, we induce the hen to give us to-morrow's also. We thus have two eggs for breakfast the first day, but thereafter we go back to our regular ration of one egg per day and should the hen ever return to her normal status, we should have to forego breakfast for one day.

2. *Permanent increase* to the extent that we increase the productivity of the individual by either bettering his living conditions or putting him in a frame of mind which induces him to work more steadily or harder.

Many of the arguments in favor of installment sales —such as that it has made mass production possible, reduced prices and created employment—are true only from the standpoint of some individual industry that has profited (justly perhaps, if the commodity produced is a necessity) at the expense of other industries. On the other hand, to the extent that the stimulation of production is temporary, the ultimate result may be harmful, as it may induce overproduction and consequently a serious reaction when demand again becomes normal. It is evident that only by increasing the total income of society can we permanently increase its total expenditures.—*John E. Rovensky. Proceedings of the Academy of Political Science.* 12: 596-7. *January,* 1927.

Since the method has not passed through a complete cycle and since only experience can furnish the answer, we shall be in a better position to judge the matter when we have passed through the next period of business depression and unemployment. It is estimated that all funded debts in the form of federal, municipal and corporate bonds, mortgages, etc., amount to approximately one hundred billion dollars and that bank debts amount to about thirty billions. We thus arrive at a total of about one hundred thirty billions for the amount that one class of people in this country is lending the other. Estimating the amount of money advanced by the lending class to the other in the form of installment debt is difficult. Estimates of the volume of installment sales range from seven to ten billions per annum. A committee of the American Bankers Association, after a careful survey of such part of the field as furnished reliable information, estimated that about 42 per cent of the annual sales is outstanding at any one time. This is considered by many to be quite a low estimate, but, using it as a basis, we arrive at a figure somewhere between three and four and a half billions as the amount outstanding at present. Some excellent authorities estimate the amount outstanding at five billions.

If we accept the latter figure and compare it with the total debts of all kinds amounting to one hundred thirty billions, it does not seem important. But I am certain that the majority will agree that this is not the proper method of judging the position occupied by installment sales in our credit structure. A better method is to compare it with the thirty billions of bank, i. e., current debt. This, while nearer the truth, has the defect that it does not take into consideration the extent to which these installment debts have been funded by means of the capital stock and long term bonds of the finance companies. Nevertheless, after liberally allow-

ing for this, it is evident that installment sales have become a very important factor in our current credit structure.—*John E. Rovensky. Proceedings of the Academy of Political Science.* 12: 597. *January,* 1927.

AFFIRMATIVE DISCUSSION

I BELIEVE IN TIME PAYMENTS—WHY?[1]

We have sold more than half a billion dollars worth of automobiles on the deferred payment plan. Seven years ago we began to finance these sales through our own acceptance corporation, and the volume of its transactions has grown from about ten million dollars in 1919 to nearly one hundred and fifty million dollars in 1925.

We have done business in every section of the country and with every type of citizen; we have operated in prosperous years and in years of severe deflation. All of this gives us a fund of experience which I am very glad to lay before the business community, for the installment business represents such a tremendous new force in merchandising, it has such power for service and such grave possibilities for abuse, that every company ought to contribute whatever it can to the development of sound policies and practice. . .

Is this situation wholesome or is it a menace? Is the automobile, as has sometimes been alleged, monopolizing an undue share of the national resources? Is the habit of installment purchase destroying the old-fashioned virtue of thrift? Are we riding for a fall in the next period of slow business? These are questions which the experience of General Motors can help to answer.

The General Motors Acceptance Corporation was organized in 1919 under the banking laws of the state of New York, a discount company to purchase notes of individual car buyers. Its practice has been to restrict

[1] By Alfred P. Sloan, Jr., president General Motors Corporation. *Nation's Business.* 14:18-19. April, 1926.

the amount of its loan to not more than two-thirds of the time selling price of the car purchased, and all notes carry the endorsement of the merchant or dealer making the sale.

The notes are payable in twelve equal monthly installments. In some sections of the country competition has made it necessary to extend the payments to eighteen instead of twelve equal monthly installments, and in some cases to accept less than one-third as down payment. In no case, however, do we go beyond eighteen months on motor car notes, and in all cases we are insisting that, while we will take less than one-third as down payment where the credit risk warrants it, the dealer's time sales should show an average of better than one-third down payment.

Under this plan the seven years' operations may thus be summarized:

Year	*Total Volume of Retail Business Handled*	*Loss Ratio*
1919	$ 9,989,018	.502 of 1%
1920	46,693,170	.918 of 1%
1921	39,725,007	.688 of 1%
1922	73,608,353	.112 of 1%
1923	102,049,475	.061 of 1%
1924	102,564,804	.097 of 1%
1925 to Nov. 30	134,620,627	.012 of 1%
Total	$509,250,454	

The experience of 1924 is practically completed, but the experience of 1925 is, of course, not yet complete, as all receivables have not yet matured and been collected. In the whole period, our total retail charge-offs equal .199 of 1 per cent of volume of retail business handled. On December 31, 1923, we had on our books $50,104 of accounts sixty days overdue, which equaled .104 of 1 per cent of our total retail receivables. On December 31, 1924, we had $67,246 of accounts sixty days overdue, which equaled .146 of 1 per cent of our

total retail receivables. On November 30, 1925, we had $176,741 of accounts sixty days overdue, which equaled .207 of 1 per cent of our total receivables.

It is usually argued, and perhaps justly, that the real test of the installment principle will come in a year of business reaction, when values shrink and unemployment is general. In this connection our record during the years 1920 and 1921 is particularly interesting, for these were years when all business slowed down and some very strong industries had to be taken over and reorganized.

Small Losses in Collections

What happened to the installment collections? The figures above show that our losses were somewhat increased, though they were still insignificant; but the figures do not tell the whole story. Fifty per cent of our losses in these two years occurred in three district offices.

Pioneering as we were in a new field, it was necessary for us to find and train men to fill the positions of branch managers, and in three branches the organization was not matured. The losses which took place in those offices could not occur again. . .

An encouraging fact is that unsound practices in installment selling tend to be self-remedying. For when the down payment is too low and the terms too "easy," credit verification is expensive, losses are high and repossession frequent, all of which means that the honest purchaser has to pay the bill in high financing charges.

Unsound Financing Passing

The unsound finance company is, therefore, unable to meet the rates of companies managed more conservatively, and tends to drop out of the picture.

Taking the country as a whole we feel complete confidence in the present situation and future development of installment selling.

We believe there is an increasing recognition of the necessity for conservatism on the part of all concerned, and our previous experience with years of deflation does not make us apprehensive regarding such a possible period in the future.

There are three other points which it may be worth while to mention briefly here.

1. The average amount of the individual transaction which the finance corporation is called upon to handle is smaller than is usually supposed. People assume that the sale of an automobile involves something like a thousand dollars, but half of all the new cars sell for around five hundred dollars, and the millions of used cars are sold all the way from $25 up. The average individual obligation is not too great a burden for the ordinary family, even in a period of enforced economy.

Isolated cases will be found, of course, where a buyer has obligated himself beyond his ability to pay, and much publicity has been given to such cases. But taking it by and large, the American household has not lost its sense of proportion. It is utilizing its credit and taking a chance on the future, but the chance is carefully considered and is commensurate with its reasonable earning power.

2. The fear has been expressed that the automobile industry is monopolizing too large a proportion of the nation's financial resources. The criticism comes sometimes from economists but often from manufacturers of clothing, furniture and other so-called necessities, who feel that part of the prosperity of the automobile companies has been gained at their expense. It is undeniably true that the automobile has become the outdoor home of twenty million American families, and that out-

door life requires less dressing up, less "furnishings" and "trappings."

But the money which these twenty million families are putting into their cars, though it may come in part from some other items in the budget, does not come either through selling or mortgaging their homes nor out of the savings bank. Coincident with the prosperity of the automobile industry has come unprecedented increase in home building; life insurance has amounted to tremendous totals, and savings deposits have not alone doubled in the past seven years but today represent 49½ per cent of the total banking power of the country as against 49 per cent ten years ago.

How Are Payments Being Met?

How, then, are the payments being met? It is hard to escape the conclusion that they are being met largely through increased earning ability of the purchaser, which, in the last analysis, means that he is performing a greater amount of work than would be the case did he not have to meet the payment of a fixed obligation every month.

3. This brings us to the last point, which to my mind is most important. I believe that the installment principle as applied to automobiles, far from being an economic menace, is a powerful incentive to increased production, and deserves a measurable degree of credit for our present prosperity.

Suppose, for the sake of contrast, that we consider China or Persia, where no facilities for capitalizing credit exist. In such a country one man may need a pair of shoes and another may be eager to supply them. Yet nothing happens. But as soon as you make it possible for the first man to say to the second, "Make me a pair of shoes and I will pay you out of my earnings," the whole situation is changed. The first man has the

shoes, the shoemaker has the work, and another profitable industrial operation has been consummated.

The buyer will work more effectively because his feet are properly shod and harder because of the obligation to pay. The multiplication of such transactions and the extension of facilities which would make them possible in all fields of industry would go far toward transforming a so-called "backward" nation.

New Economics Are Involved

There are many discussions of political economy which are too technical for the ordinary business executives, and the economists themselves are enlarging their horizon so rapidly and revising their old-time doctrines in so many ways that the business man may properly be forgiven if he lags a bit behind. But is not this the corner-stone of *all* political economy—that the basis of national wealth is not things but people; that human life and energy are the sources from which all wealth flows?

That the power to use his credit has enormously stimulated the productive power of the average American cannot possibly be denied.

I recently saw somewhere an article entitled, "We have learned to build in winter," which set forth the advantage accruing to us by reason of the all-year-around activity in the construction trades. Many influences have combined to make this possible, but surely one of them is the fact that workmen will now undergo discomforts and hardships in the building trades which were once regarded as prohibitory *because* they have a greater incentive to work.

They have set their families on a plane of living they will not willingly relinquish; they have pledged their labor for the realization of certain wholesome desires and ambitions, and they are cheerfully and efficiently fulfilling the pledge.

THE FINANCE COMPANIES' SIDE OF INSTALLMENT BUYING[2]

Installment buying is said to be older than Christianity. Crassus, a friend of Julius Caesar, and the first known installment banker, is said to have amassed a fortune by purchasing homes outside the walls of Rome and selling them to people upon easy terms.

We forget that thirty or forty years ago many of us bought pianos, sewing machines, bicycles, books and many other articles upon installment payments. Purchases payable in installments quickly tie up large resources and in those days, there being no outlet for such obligations, the dealers had to carry same and finance their business as best they could and restrict their volume of such sales accordingly.

The development of finance companies within the past fifteen years offered a legitimate specialized banking outlet for installment obligations, which, with the coincident perfection of the automobile, has caused a very rapid increase in the volume of installment buying of many articles. It is the abuse and not the use of the system to which attention should be directed, as the increase in volume alone upon a sound basis in proportion to all commerce should not increase the hazard, economic or otherwise.

It is very doubtful if the increase in total volume of installment buying during the past six years has been out of proportion to the increase of all merchandise bought, whether for cash or on time. From the tremendous increase in the attention given the subject, however, by economists, bankers and business men within the past year, one would think a very radical change in the distribution of merchandise had only taken place within the past few years.

[2] By A. E. Duncan, chairman of the board, Commercial Credit Company. *American Bankers Association Journal.* 19:86. August, 1926.

Special criticism has been directed toward installment buying of luxuries. The development of our country has been so very rapid that our luxuries of today become our necessities of tomorrow. Based upon the standard of living only thirty years ago, the large majority of our present day commerce would be entirely eliminated and considered most extravagant and unessential.

How many homes were then equipped with more than one, if any, bath room, hot and cold water, telephones, electric lights, gas ranges, furnaces, not to mention pianos, phonographs, radios, electric washers, irons, toasters, etc.?

To what extent did we then occupy sky-scrapers with elevators, electric lights and other modern conveniences, and use in our daily business paved highways, the automobile, taxicab, truck, mail airplane, local and long distance telephone, telegraph, wireless, electric and steam railways, typewriters, adding and billing machines and other office and plant labor and time saving equipment?

In 1895—only thirty-one years ago—just four automobiles were built in the United States, while in 1925 there were 19,954,347 motor vehicles in registered use, of which 17,512,000 were passenger cars and 2,441,000 were commercial vehicles. Strange as it may seem, there are today 2 per cent more automobiles than telephones in daily use in the United States.

Well do we remember how enraged the farmer used to be when, with his now antiquated horse and buggy, he had to pass an automobile on the road. Today 21½ per cent of all motor vehicles in the United States are farm owned.

What Are Luxuries?

How can we say that "luxuries" should not be bought on time when it is next to impossible even to decide what is or is not a luxury, certainly when applied

to a given individual? Better should we try to educate the public as to what constitutes sound installment buying and then leave the matter to the individual purchaser and to the dealer passing upon his credit. The American people have a lot of common sense, make a few mistakes but, as a rule, neither incur nor are permitted to incur obligations much in excess of their ability to pay.

There are exceptions, of course, and there is no doubt that in 1925 there was a large amount of unsound installment buying. This was due to not knowing just what constituted sound installment buying, to competitive conditions and high pressure salesmanship by finance companies, dealers and manufacturers. This resulted last winter in substantial increase of repossessions, collection and overhead expense, excessive losses and reduced earnings, and especially in directing the attention of bankers to the growing tendency to unsound principles and the probable future economic effect of installment buying.

Installment paper purchased during "boom times," as in 1925, is more hazardous than that purchased during dull times or a business depression. The individual is then far more careful as to the future of his position, his obligations, what he buys and his ability to pay for same. Fortunately, the trend toward unsound installment buying culminated early last winter during good times, which have since continued. Well managed finance companies, guided by their experience, have been able to readjust their business, use greater care as to the credit of the buyer, the article bought and especially the down payment and maximum terms of purchase without seriously affecting their current volume.

Most of the unsound installment buying has now been eliminated and the situation has been curing itself from within the finance companies rather than from pressure brought upon them by their bankers, which is as it should be. Every new and profitable line of busi-

ness must go through the process of overdoing capacity, highly competitive conditions which result in some unsound practices, reduction of profits, elimination of weak and poorly managed competitors, consolidations and gradual placing of the line of business upon a more permanent and a sounder basis than ever. The business of finance companies is no exception and is now in the period of elimination and consolidation.

Tests of Soundness

There can be no doubt as to the soundness of installment buying of machinery or other articles which pay for themselves through saving in labor, time, expense or through increased production or efficiency; or as to the unsoundness in the purchase of articles usually consumed or made worthless before being paid for.

There should be no doubt as to the soundness of installment buying by deserving individuals of many articles which add to their convenience, comfort, education, health, recreation or pleasure, provided that: the character and credit of the purchaser and his ability to pay the amount involved out of his current income or means is predetermined by investigation; the article bought will upon normal repossession at any time realize approximately the unpaid balance due thereon; the down payment is sufficient to assure the purchaser a substantial equity therein and thereby give him a sense of ownership and not of rental of the article; the maximum maturity is kept well within the useful life of the article and the probable period of continued employment of the purchaser in his present position; the article be repossessed promptly upon failure of the purchaser either to pay or secure the amount owing thereon as and when due; as to automobiles the minimum down payment is one third of the cash delivered price and maximum maturity about twelve months, payable in equal monthly installments. . .

The average installment obligation at time of purchase is less than five hundred dollars and it is certainly fundamentally sound to purchase such paper secured by liens on the articles but without regard to the guaranty of the dealer. Such guaranty frequently involves his efforts to influence acceptance of unsound credits or the embarrassment of advising the dealer that even with his guaranty such paper is not acceptable when added to other paper previously bought from him.

The economic position of receivable finance companies was definitely established in January, 1923, by the Federal Reserve Board, Division of Analysis and Research, in an article which stated in part:

> There are in the United States a vast number of companies and individuals whose resources, or apparent credit risk, do not measure up to the standard required by banks. It is largely these that the finance company is called upon to finance. It does not necessarily follow that such subjects are not good credit risks, but merely that in so far as the bank is able to investigate, they do not fulfill the usual requirements. . .
>
> . . . The finance company, however, by dealing only with this class of customers can charge more without causing dissatisfaction among customers. This increased income enables it to carry the investigation further and to protect itself in making a loan, and also to watch developments after the loan is made. In short, finance companies are an intensified part of our commercial banking system.

Savings Not Affected

Admittedly, the large increase in installment buying has taken place during the last six years, also probably 60 per cent of the entire volume of merchandise installment buying is confined to motor vehicles, new and used. The total registration of motor vehicles in the United States in 1920 was 9,231,941, and in 1925, 19,954,347. As it is conceded that 75 per cent of all motor vehicles are sold on time, it is important to study the effect of such tremendous increased expenditure upon the savings of our country during said six years, as follows:

	1920	1925
Number of savings depositors..	22,415,148	43,850,127
Amount of all savings deposits.	$15,314,061,000	$23,134,052,000
Number of building and loan association	8,633	11,844
Memberships in building and loan associations.....	4,962,919	8,554,352
Assets of building and loan associations	$2,519,914,471	$4,765,937,197
Premium income of American life insurance companies...	$1,384,938,970	$2,371,921,237
Assets of American life insurance companies.....	$7,319,997,018	$11,643,759,810
Number of policy holders.....	66,499,000	99,250,000
Average wealth per capita in the United States.....	$2,819	$4,406

Our present wage scale is 125 per cent above pre-war rates while our present cost of living is only 75 per cent over pre-war prices. This means that a flat 50 per cent extra of our entire pre-war wages is now left free for additional savings or spending.

The installment plan of purchase of Liberty bonds through systematic savings undoubtedly is largely responsible for the great increase of miscellaneous installment buying of all kinds since the war. The statistics cited clearly show that such increase, however, has not been at the expense of either the thrift or wealth of our citizens.

Purchases of Installment Paper

A careful survey shows that there are 821 finance companies actively engaged in the financing of motor vehicles, many of which also finance other merchandise receivables. Of this number, 377 companies as of December 31, 1925, report total cash capital, surplus and undivided profits $206,927,248, and approximate installment receivables outstanding covering all kinds of merchandise, excluding real estate and land contracts, of $520,815,834, with approximate total purchases of such installment paper during 1925, of $1,041,495,153.

For a long time I have felt that the gross volume of merchandise installment buying has been greatly exaggerated, very wide publicity having been given to many installment sales plans which produced little actual business but a large amount of cash and short term credit business through the interest aroused. The actual figure herein of 377 finance companies, which includes all of the larger companies, rather definitely confirms my views. The average amount owing at any one time on installments, it is clearly indicated, has not exceeded three billion dollars.

The Commercial Credit Company was organized by me June 15, 1912, with $300,000 cash capital. Through various increases of capital and through earnings, the consolidated cash capital and surplus of the company and its affiliations is now over $30,000,000, with resources over $115,000,000, and volume for 1925 of over $262,000,000. Such growth in fourteen years is convincing evidence of the economic position of the business. . .

Installment buying upon sound credit principles supplies credit to the individual consumer based upon definite terms of payment rather than our old custom of retailers carrying long term accounts for purchasers with no definite plan of payment.

Other advantages are:

Increased demand for merchandise, especially labor and time saving, health preserving and pleasure giving articles.

Increased employment, increased wages, increased purchasing power, increased production, increased consumption, increased efficiency, thus completing the circle of increased prosperity, based upon high wages, high production and high consumption.

Mass production of articles bought which greatly reduces their cost either for cash or on time. Automo-

biles would easily cost $300 per car more if production were limited only to cash buyers.

Reduction in price due to mass production, which more than offsets the increased cost to installment purchasers of about 10 per cent or less, including interest.

Protection of principal by facilitating purchases out of income instead of out of capital account. This is the greatest reason of any for the general use of installment buying, and which most critics quite overlook.

Increased ambition and increased earning ability by satisfying desire to have articles which could at the time only be purchased out of income. The individual then wants more and better things in life for himself and family and will work and plan harder and save more to get them.

Transfer of millions of dollars of former short and long term open accounts with no definite date of payment to regular dates of payment. A large part of present outstanding installment debt comes from this source.

Establishment of the habit of budgeting income and encouragement of integrity of the purchaser by making him realize the value of meeting regular payments, which must encourage saving.

COLUMBIA ECONOMISTS ENDORSE INSTALLMENT SELLING[8]

Installment selling is sound business practice, according to the findings of the staff of economists headed by Professor Seligman, of Columbia University, who has been studying the subject for the past fifteen months. Properly administered, the system of consumption credits is no more dangerous than production credits. In fact, the results of the system, properly safeguarded, tend to increase production, stabilize output, reduce production costs, and increase purchasing power.

[8] *Sales Management.* 13:1057. December 10, 1927.

Consumer Credit Figures

The investigation was originally undertaken at the request of the General Motors Company, which also financed the enterprise. As stated by James J. Raskob, chairman of the General Motors finance committee, "If we were wrong, we wanted to know it. If we were on fundamentally sound economic ground, we wanted to know that also."

Professor Seligman, for his own part, said that in undertaking the investigation, he made it a condition that he have entire freedom of inquiry and judgment. After gathering his data he refused to be influenced in his conclusions, and as a further condition it was stipulated that the conclusions should be published in full. In its complete form, the investigation fills two large volumes.

In summarizing the final report Professor Seligman stated that the extent to which consumer credits had been extended in 1926 was estimated at $4,500,000,000. In that year there was a total commodity turnover of $38,000,000,000, installment buying representing approximately 12 per cent of the total. It was also estimated that there was about $2,000,000,000 worth of consumer credit paper outstanding at one time.

On the highly controversial question as to the risk involved, he said: "There are no greater risks attending consumers' credits than producers' credits, if properly administered, and they are in fact more liquid. Frozen credits are not a concomitant of installment selling. The theory that a business depression would be considerably aggravated by outstanding consumers' credits is not confirmed by investigation. An elaborate study of the situation in a period of almost complete depression caused by the coal strike in eastern Pennsylvania a few years ago, showed that there was even an advantage in installment credit over general bank credit.

It showed that it is, precisely, in bad times that bankers are compelled to continue to extend credits of doubtful soundness, whereas in installment credit the volume of paper diminishes constantly.

Majority Pay Their Debts

"Protracted investigations showed that the losses connected with installment paper are very small; that in the proper administration of the system, the finance company should be a dispenser of credit and not a seller of automobiles; which lends force to the principle, and brings forth the conclusion that the only legitimate system is the recourse one—that in which the seller accepts responsibility for the credit."

Individual credit, said the speaker, is going through precisely the same phase that every preceding form of credit has passed through. "Installment credit is beginning to do for the consumer what the gradual development of the commercial banking system has done for the producer. If the credit is restricted to the proper commodities, under proper management, it will gradually throw off its abuses and will stand forth as one of the most signal contributions of the twentieth century to the potential creation of national wealth and national welfare."

Result of Credit Extension

There is always the qualification, of course. Consumers' credits are thus beneficial "under proper conditions," or "when properly administered." But exactly the same is true of any other system of credit, and as Professor Seligman pointed out, every form of credit has been subject to the same doubts and misgivings, and has been equally open to abuse. He said:

> Economists have in modern times been making intelligible what is known as the economy of high wages. High productivity, high efficiency, high standard of life, go hand in hand

with inventive ingenuity, with increase of capital and with augmented prosperity. In this process no small part is played by the gradual transition of commodities from the category of luxuries to that of necessities. The luxury of one age becomes the necessity of the next.

While it is undoubted that in the case of the automobile there have, in individual cases, been very decided resultant evils, yet on the whole we cannot regard the automobile as a type of foolish and wasteful consumption. Few would dispute the statement that the advent of the automobile has marked a revolution in economic and social life comparable to that produced by the introduction of the railway.

ECONOMIC ASPECTS OF THE MODERN CREDIT PLAN[4]

Views of Noted Authorities

Charles E. Mitchell

President, The National City Bank, New York, N.Y.

Mr. Raskob has presented effectively the case for installment purchasing. Sweeping condemnation of this form of credit is not only futile, because the system has come to stay, but unwarranted, because when kept within the bounds of good credit practice, it performs a real economic service.

The question of the soundness of the installment system cannot be decided categorically. It is a question of degree. Abuse of credit in any form brings retribution; this is true not only of installment credits but other types as well. It is the abuses of the installment system that should be guarded against and not the general practice that should be condemned. Under present conditions of easy money, credits of all kinds, installments or otherwise, should be carefully scrutinized, for it is in times like these that indebtedness often gets a head start and outstrips our capacity to pay almost before we know it.

[4] *Industrial Management.* 73:70-3. February, 1927.

Mr. Raskob points to the growth of life insurance and savings bank deposits as evidence of a solid basis of present prosperity. Increase of building and loan assets and wide absorption of investment securities point to the same conclusion. We have always financed a large proportion of consumers' purchases on credit, and the installment system is more scientific than the old open account methods. Accompanying and at least partly off-setting the large expansion in credit sales in recent years has been the phenomenal gain in sales of stores requiring cash payments. In 1926, sales of chain systems reporting to the Federal Reserve Board and the Department of Commerce approached two billion dollars, and there were many other chains not reporting.

It is true that installment credit cannot permanently increase consumption of the people beyond the limit of their incomes. Nevertheless, by placing within reach of the mass of people articles of comfort and luxury previously unattainable, and thus providing a goal for their savings, installment buying can and has created an incentive to industry which no doubt has been a factor in raising the general standard of living and creating a real addition to the purchasing power of the population.

Otto H. Kahn
Kuhn, Loeb & Co., New York, N.Y.

The standard of living of the masses of the people is higher than it ever was before, or than it is anywhere else. The difference between that which is available to people of small means and that which is available to the well-to-do, or even the rich, is steadily diminishing.

One of the reasons, in my opinion, which has contributed materially toward that eminently desirable consummation, is the wide popularization of the system of installment buying. To my mind, that is an excellent thing from the social point of view, a thoroughly democratic thing. It gives to the people at large access to

the credit facilities of the country, which in the past were reserved mainly for the uses of men of affairs. It gives them a stake and an interest and a share in the credit structure of the country, to the erection and operation of which their savings are a contributing element.

I know a number of bankers, and some writers on finance and economics, are shaking their heads gravely at that newly evolved system, if they do not condemn it outright. Of course, the thing can be abused; it is not fool-proof; it must be watched and controlled in its operation. Like every other instrumentality of business, it requires, for its proper working, self-restraint and prudence. But I can see nothing thus far to indicate that there has been any serious abuse of these new facilities made available to the people. After all, the best proof that they have not caused the masses of plain men and women to lose their heads and fling prudence to the winds and cease from providing for the future, is the fact that deposits in savings banks have kept on increasing by leaps and bounds and that more life insurance policies are being taken out than ever before.

Sir Frederick Williams Taylor
General Manager, Bank of Montreal,
Montreal, Quebec, Canada

In so far as the installment plan of buying makes it possible for the buyer to increase his productive capacity or provides an incentive to industry and thrift by making homes happier, it is a good thing, and the plan should not be condemned merely because it is susceptible of abuse. The experience of the great acceptance corporations is marking out the line of safety. They have a sound appreciation of the fundamentals of credit and they know, or at any rate are learning quickly, where the use of installment buying ends and the abuse of it begins.

The business will doubtless expand, and I see no reason why, if conducted on sound lines, it should not at the same time be wholly constructive and beneficial.

RALPH VAN VECHTEN

President, State Bank of Chicago, Chicago, Ill.

For a time there was criticism of installment buying, but a careful analysis of the situation shows that long before the point of danger had been reached there was a curtailment on the part of the leading finance companies by a tightening up of terms—a good thing for the public, the manufacturers and the finance companies as well. Today the consensus of opinion is that such companies are performing a useful service and that by standardizing their terms, they are placing the business on a sound basis of helpfulness to the lines which they stimulate, instead of doing harm to the general situation.

HARRIS CREECH

President, The Cleveland Trust Co., Cleveland, Ohio

The banker must be conservative, but not reactionary; he must not permit himself to be tied by the rules of yesterday merely because they were good rules yesterday. Safety must be the first consideration for a bank's loans, but the banker has learned that, with additional safeguards, some loans are safe today, which might not have been safe five years ago.

Most bankers today are convinced that a bank's money can be used safely in assisting well organized institutions with sufficient capital to finance "consumers' credit." Further we have become convinced that the system, besides being an inevitable development of our day, has on the whole, so far, been a highly useful development, enormously increasing our capacity to produce and consume goods.

There may be an honest difference of opinion as to the effect of the system upon the ultimate buyer of the

goods sold on the installment plan. Unquestionably there are dangers to be avoided, but we must not overlook the great factor of added incentive to labor and to higher standards of living. We know, however, the problems have been recognized by such institutions as the General Motors Acceptance Corporation and others, and, due to the ability of the management, are being successfully handled.

W. S. Rowe
President, First National Bank, Cincinnati, Ohio

Much is being printed concerning installment buying and it is often treated as something new, whereas the only thing new about it is a new or increased volume.

New inventions are constantly increasing man's comforts and raising his standards of living. Many things formerly out of reach of the average man which were regarded as luxuries are now regarded by the newer generation as necessities, and the result of tireless work by scientists has certainly made life happier. It seems perfectly natural that owing to the large volume of credits much should be written on the subject, but with the careful analyses which have been made and with the data that have now been produced and the small percentage of losses where credits are carefully supervised, it must be evident that this increased volume of installment sales has come to stay.

F. L. Lipman
President, Wells Fargo Bank & Union Trust Company, San Francisco

A man may be accustomed to spend all he gets and have nothing to show for it; he enters into an installment contract and still spending all he gets, he now has something to show for it. This converts him into a property owner and as a property owner he feels a new kind of self-respect and he also finds himself hungry for more property. It is said that in certain districts

of the country, workmen formerly could earn wages enough to live on their accustomed scale by working only part of their time, so after the fourth or fifth day of the week they would quit and take holidays. But now this has been changed, for, with obligations under the installment plan, they find themselves in need of income—an income to pay for articles they have undertaken to buy, which articles tend to bring them to a higher scale of living, and so the labor situation has been definitely improved through the installment plan. Now a man who has put aside so much a month for an automobile, a radio, a washing machine, etc., and has these things to show for his payments must be in a better state of mind to see the point of paying so much a month for life insurance protection for his family than before he had such experience.

E. R. A. Seligman
Professor of Political Economy, Columbia University

The improvements that have been gradually made in bank credit are in large part the result of careful study and protracted experience. With every advance in the complexity of modern industrial life it has become possible to make a more detailed analysis of the interrelations of the various factors of credit. The successful banker today must be to a far greater extent than at any past period a man with adequate training and sufficient imagination to comprehend the influence of all the various elements in the problem. Banking today has become not only an art, but a science; with the result that our understanding of the scope, the functions and the limitations of bank credit has reached a point where we can with considerable success distinguish between the use and the abuse of the institution. The result is that the bank, as an instrument of production credit, is now universally recognized as an integral and necessary part of modern economic machinery.

The most recent development in credit is its utilization to secure more durable goods for immediate con-

sumption. The original form of this category of credit is found in the case of houses. For several generations now and especially in the United States home buying on the installment plan has become familiar to all. With the progress of the movement this form of credit was gradually extended to other commodities. A system of installment buying was applied to sewing machines, then to pianos, then to agricultural implements—still more recently to automobiles.

MERLE THORPE
Editor, The Nation's Business, Washington, D.C.

Established institutions resent change. So, when youth comes along with mass production, with mass selling, with mass credit, it must fight for its new ideas.

Just now, mass credit is attacked. "Mortgaging the future will bring us to the demnition bow-wows," is the cry. Sixty years ago prophets of evil saw dire retribution if the women persisted in buying sewing machines before they had money to pay for them.

The figures showing the growth of installment buying amaze and bring fear; while the figures showing the increase in savings deposits and in insurance policies are taken as a matter of routine.

So a youthful industry set up our modern triangle, an important contribution to our economic life. But that is not all. It contributed something more. What is it which we are born with little of and go through life wishing we had more of? *Time.*

Mass production gives us more time; mass selling gives us more time; mass credit gives us more time.

INSTALLMENT SELLING FOR EXPORT [5]

In the economic evolution of nations they are first agricultural and then industrial. In the agricultural

[5] By E. G. Simons. From an address before the sixteenth National Foreign Trade Convention. Mr. Simons is vice-president of the American Foreign Credit Corporation, New York. *Bankers Magazine.* 118:1006-71. June, 1929.

period they export the surplus products of their fields and import all the manufactured goods they need, such as textiles, implements and foodstuffs which they are not able to produce themselves. In the industrial period they build factories and make their own textiles and implements. Experience shows, however, that in the evolution they do not import less, but more as they develop, because of the improved standard of living which comes with industrial development.

Many of our best customers are in the transition stage, between the first and second period. We have passed through the first period and are now in an advanced stage of the second, where we import only such raw materials for our factories as cannot be produced at home, and articles of luxury. And, while we export still the surplus of our fields, the surplus of our factories now constitutes the greater part of our exports.

Mass Marketing

The World War, stopping exports from many European countries, provided us with a great surplus market which we built factories to supply. The end of the war and the reappearance of European production found us with an over-capacity that was staggering. But the responsibility of war production had been the opportunity for our technical men to prove the possibilities and economies of mass production and standardization. They proved that in great quantities they could produce at low unit costs. Men of nerve, like Mr. Ford, tested the public with low prices based on quantities apparently beyond the possibility of marketing. It worked temporarily. Then those practical economists, the successful sales managers, sharpened their pencils and discovered that for every person who can pay $1000 cash for an article there are over five hundred who can pay $250 cash and keep on paying until the thousand has been reached. The day of mass marketing had arrived. Mass

production economy was assured by mass marketing. The last five years' unequalled prosperity is proof that the solution works. A standard of living providing the greatest degree of comfort the world has ever known is proof that it is beneficial economically.

However, the plan has been so successful that we have again increased production greatly, not only of articles sold to the public, but of the tools and machines that make these articles. We have discovered that one man, plus 3½ horsepower intelligently applied, equals five men. And we are again faced with overproduction unless we can develop further mass markets. With a little over 6 per cent of the world's population we are producing over 55 per cent by value of its machinery and consuming 50 per cent. A slight increase in the purchasing power of the remaining 94 per cent will absorb an immense amount of goods. A slight improvement in their standard of living will bring a demand for articles of comfort and machinery to produce them that would occupy our factories for years to come. With the backing of our tremendous home market to support our mass production and mass marketing our position is impregnable. But to maintain our prosperity we must make it possible for our foreign customers to buy. With less wealth and a lower standard of living it is more difficult for them to pay large cash payments than for our own people. So we must provide them with means for small down payments and long periods to complete payment.

Cash or Credit

There are only two ways of selling: one is for cash, the other for credit or deferred terms. The chief difference between ordinary commercial extension of credit and installment extension of credit is that in the former it is not customary to take security for payment. In installment selling title is retained to the article sold as security for payment. By just that much installment

selling is the more conservative form of credit. Under ordinary credit terms, in event of failure of the debtor, we are general creditors. Under title retention we are preferred creditors. When we sell on unsecured terms we always try to make them as short as possible in the endeavor to get out before anything happens. When we are secured we are able and willing to extend terms which will permit the customer to arrange his business advantageously to himself. Consequently, as installment terms are safer they are generally longer, permitting smaller payments and opening a broader field for sales.

Other nations have observed the progress we have made in a decade of installment selling and are showing a desire to adopt our methods. Some, like Peru, have discarded laws which were unfavorable to title retention and passed laws modeled after our own so that their people could get the benefits. Others, like Spain and Cuba, have overturned decidedly unfavorable laws by judicial decisions of their highest courts sustaining the preferred position of a creditor under a title retention contract. This trend toward liberalizing laws to permit title retention and installment selling is progressing most rapidly in just those countries in which we are trying hardest to develop our foreign sales, namely, Latin-America and the new nations created or rebuilt in Europe after the war. We do not have to press the idea of installment selling on these customers; they are ready and waiting for us to bring it to them. They need outside capital to assist in developing their industries and raising their standard of living.

"Positive and Tactful Credit"

Much has been said about the desirability of confining loans to foreign countries to reasonable proportions and to productive enterprises. Much has also been written about the custom of certain of our international rivals of making loans conditioned upon the money being spent

in the lender's country. Credit through installment selling insures both of these ends in a manner which is both positive and tactful. It insures the extension of the minimum amount necessary for each enterprise and vigorous effort on the part of the borrower to make the venture successful. It insures further that we as lenders are going to put ourselves in sympathetic contact with our customer's country and learn about its laws and customs and his business. Out of all these things grows the reality of foreign trade, not mere selling for export, but the development of a foreign market.

Almost invariably when a customer has become overextended the creditors have gathered and, if they considered him honest and his business fundamentally sound, they have extended him more credit and arranged a schedule of repayments for him to make. If he is honest and his business fundamentally sound he deserves a better chance. Installment selling works out a schedule in advance, arranging that he is provided sufficient working capital and insuring that he does not get into difficulties. Under the old plan something had to happen to the creditors to make them reasonable; under the new everything is planned for safety. Good installment selling never just happens. It is the result of a definite determination of policy deliberately entered into as a means of developing a known market. Such a decision demands careful study of all phases of the situation and expert advice, both technical and practical, before a plan of sales is worked out.

The Finance Company

This is where the finance company enters in with its broad experience in formulating plans and providing safeguards. The accumulated experience of dozens of plans worked out for various industries under dissimilar conditions; knowledge of where laws are favorable and where unfavorable; familiarity with the experience of

others in similar industries in the same markets, all give a background upon which technical experience builds a successful plan for the product in a particular market.

A plan was developed by our organization for the sale by one of our clients, of a plant producing a product protected in the foreign market by a substantial duty. The purchasers had not very much cash, but were experienced and respectable. We arranged contracts for a continuous supply of raw material at a fixed price; for a market for the finished product at a fixed price; and for the erection of the plant. All these contracts were assigned to our client. Title to the plant was retained by our client. The savings in duty alone were calculated to pay for the plant in less than one year. With assured operation and market, a small down payment became safe, leaving the maximum possible cash for operating expenses. The soundness of the transaction was due entirely to the experience and care employed in its set up.

The very negotiations leading to a sale on installment basis tend to safety. If we receive an order under standard terms of ninety days sight, it bears no earmarks in itself of the character of the buyer. He seldom feels that he need give information as to his financial position. But, if a negotiation of some length is carried on, during which new principles such as that of title retention and partial payments are discussed, and if perhaps the customer is called upon to show that he is likely to be able to complete payments, a good deal of his personality and character are going to be displayed by the time an order is closed.

Transport and Credit

A few weeks ago, regular air mail service was initiated between Miami, Florida, and Mollendo, Peru, touching in six nations. Within a few months there will be air mail service to all the countries of Latin

America. This quickening of communication and shortening of distances is bound to have a profound effect upon trade between our nations. The old impediment of lack of time, which tended to standardize terms to a few recognized forms, will be destroyed. It will be possible to present offers of new terms and discuss them by letter before the opportunity for business has slipped away. Similarly it will be possible to ship goods, sending title retention contracts, notes, etc., by air mail and getting contracts completed, notes accepted, and the whole transaction recorded before surrendering the goods themselves. All this can be done without complaint from the customer of delays and fines in customs.

A contractor with little capital but excellent experience is awarded the construction of a foreign municipal work. The amount is too small to warrant the expense of a bond issue. The city pays in serial notes due quarterly over five years. The city receives a national subsidy to assist in the work. Title cannot be retained, but with proper assignments the contractor is financed in his construction costs.

Many municipal enterprises in Latin America cost an amount too little to warrant the expense of getting out a public offering in this country. Yet the amount is too great to be met from current receipts or to be advanced by local banks. In such cases needed works are frequently delayed and sales opportunities lost. At times municipalities support ventures which with us would be private enterprises. Nearly always the principal need of the purchaser is that sufficient time shall be given for payment to be completed from taxes or from earnings.

An exporter wishing to place a larger stock of seasonal articles in the hands of his dealers than their credit standing warrants, ships on installment basis, delivering from local warehouses as required. Title is retained until sold, when it is released either for cash, or for

retail paper with title retained to the dealer and assigned. With careful local supervision it is entirely safe and the business doubles almost overnight.

Credit Methods

This is an era of merchandising rather than selling. We must create sales rather than take orders. In order to create a sale, it must be worked out on scientific lines with someone taking a commercial risk, but protecting himself by various methods so as to minimize the risk. The same possibilities for broadening the market by putting the product within the reach of the buyer exist in foreign countries that have been proved here. The possibilities exist both in articles for personal use, such as automobiles, electric refrigerators and pianos, and in engineering lines, such as construction machinery, industrial equipment, public utilities and municipal improvements. Since persons or corporations can only pay within the reach of their capacity to earn, it is far better to arrange payment within that capacity than to set arbitrary terms. Letter of credit terms or even ninety-day draft terms which do not take into account the buyer's actual situation, do not create business. But, if we can determine an economic formula that will permit the customer to pay over a period of time within the range of his capacity to earn, we will have a better and more economic credit. When we arrange that better and more economic credit, we have installment selling.

BRIEF EXCERPTS

From an economic point of view, is there any reason why the people of any country should not have all of the comforts they are able and willing to produce?—*John J. Raskob. Industrial Management.* 73:65. *February,* 1927.

The installment buyer must have worked up to a certain earning scale and have saved in cash a substantial percentage of the price of the merchandise before his note will be accepted for the balance.—*Bankers Magazine.* 114:461. *March,* 1927.

One who qualifies for credit in any form and then protects that credit has shown character and gained in character by the experience quite as much if not more than one who has saved to pay cash.—*Bankers Magazine.* 114:463. *March,* 1927.

Given the desire to have an automobile and the willingness to work for it, we have only to supply the automobile on an economic basis and a practical means to purchase it. This latter means is afforded by the installment purchase plan.—*John J. Raskob. Industrial Management.* 73:65. *February,* 1927.

No installment house will knowingly accept the account of a customer who is already so committed to other creditors that his obligation to itself cannot be met with a comfortable margin to spare, and a proper credit investigation will certainly disclose the facts in this respect.—*Bankers Magazine.* 114:464. *March,* 1927.

Frozen assets are as old a problem as depressions and a by-product of every slump in the business cycle. And the writer submits that the freezing process will be much less complete with the inventories divided among thousands of users who have daily need for the goods than among hundreds of dealers who can only store them until demand is established.—*Bankers Magazine.* 114:464. *March,* 1927.

Every phase of economic life has been attended by the addition of a new form of credit appropriate to its

own conditions. Every great advance in the development of our nation has been first financed on credit and then paid for by the people in installments. Consumers' credit, paid in installments, is simply the adaptation of this principle to the individual's advance.—*John J. Raskob. Industrial Management.* 73:68. *February,* 1927.

While the development of consumers' credit is no cure-all for industrial or economic ills, a higher rate of consumption of goods with its attendant higher rate of employment and enjoyment is a great stabilizer of national prosperity. Those of us who are intensively studying this often wonder if conditions in England, for instance, would not be better if idle hours were converted into productive energy through higher consumption.—*John J. Raskob. Industrial Management.* 73:69. *February,* 1927.

Sellers must have confidence in the goods they sell if they are to give extended payments to the consumer, even though these extended payments are handled by finance companies, as the dealer has the responsibility eventually to the finance company for the money and to the consumer for the merchandise. The result is that merchandise sold on extended payments is higher grade merchandise than the consumer would purchase by the old standard. *P. H. Booth. Journal of Electricity.* 56:447. *May* 15, 1926.

Word received from President Coolidge to the effect that, in his opinion, installment buying in the United States is not a cause for concern, should allay apprehension on this subject. According to the White House spokesman, at a press conference, the President believes that installment buying is not of sufficient magnitude to be the cause of worry, when considered in comparison with the nation's total income. From the same source

of information it was learned that the President considers installment selling to be a sound method of extending credit, since it enables a great many people who receive small salaries to increase their purchases.—*Printers' Ink.* 137:92. *December* 9, 1926.

During the years 1922, 1923 and 1924 the General Motors Finance Corporation purchased consumers' obligations aggregating $278,223,000. All of these have been paid except $238,073, representing bad debt losses. This is under 1/12 of 1 per cent. It is true that these cover three years of prosperity, but few banks loaning money for producers' credit can point to as good a loss record for the same period.

The 1925 and 1926 figures are not included because the experience is not yet completed, but the credit losses to date on $529,000,000 of consumers' obligations purchased from January 1, 1925, to January 1, 1927, aggregate $262,000, or about 1/20 of 1 per cent.—*John J. Raskob. Industrial Management.* 73:68. *February,* 1927.

The most complete survey yet attempted of new car financing in the automotive field shows that 64 per cent of all new car sales are on a credit basis, which means about 50 per cent of the industry's output in dollars. Of this one-third (16⅔ per cent) is paid down and with the outstanding balance (33⅓ per cent) due in less than twelve months' time.

On a twelve months' installment basis the average of total annual volume outstanding at any one time is less than 50 per cent—which means that not one-half of 33⅓ per cent of the industry's annual new car volume in dollars is outstanding at this or any other moment. That figures down to the equivalent of somewhat less than sixty days' average output.—*Bankers Magazine.* 114:464-5. *March,* 1927.

In 1925, with 64 per cent of all new passenger car sales on installment terms, the American output was 3,699,991 units and the average retail price $870. The 1913 closed car output was but 1½ per cent of the total. In 1925 this percentage had increased to 56.5 per cent. If the same closed car percentage had obtained in 1913 the average retail price would have been 20 per cent higher on this item alone. The retail price of the 1925 car includes equipment which was extra in 1913, worth perhaps one hundred dollars, and the 1925 cost of labor is roughly double that of 1913. The 1925 engineering features with money value to the buyer represent a tremendous advance over 1913, whose cash equivalent is hard to estimate.

On the most conservative estimate, however, the average 1925 buyer has gained nearly four hundred dollars, in the price of his car, plus equipment, thanks to mass production made possible by installment sales.—*Bankers Magazine.* 114:465. *March,* 1927.

Every index figure that bears upon the subject indicates that the average American today is saving as never before in history. Savings bank depositors, who numbered eleven million in 1912, numbered forty-three million in 1925. Their deposits increased within the same period from $8,400,000,000 to $28,400,000,000.

Life insurance protection outstanding in 1912 amounted to $16,000,000,000. In 1925 the figure had grown to $72,000,000,000.

Home building increased 455 per cent within the eleven most active years of installment buying—from 1915 to 1926.

The average wealth per capita in the United States is reliably estimated to have increased 50 per cent within the brief period from 1920 to 1925.

Memberships in building and loan associations increased from 4,962,918 to 8,554,352 within the same five

years and the assets of such associations simultaneously grew from $2,519,914,971 to $4,765,937,197.—*Bankers Magazine.* 114:463-4. *March,* 1927.

Mr. Milan V. Ayers, a prominent economic statistician of Chicago, recently completed an exhaustive study of the whole field of installment purchasing. He summarizes the part installment purchasing plays in various lines of industry as follows:

RETAIL INSTALLMENT SALES—1925

Automobiles — new and used	$3,780,000,000	$2,546,000,000	$1,378,000,000
Household furniture	789,000,000	684,000,000	542,000,000
Pianos	234,000,000	203,000,000	212,000,000
Phonographs	174,000,000	134,000,000	84,000,000
Sewing machines	106,000,000	97,000,000	77,000,000
Washing machines	104,000,000	94,000,000	51,000,000
Property improvements	108,000,000	83,000,000	45,000,000
Radio sets	181,000,000	139,000,000	41,000,000
Jewelry store goods	108,000,000	88,000,000	40,000,000
Clothing	282,000,000	223,000,000	36,000,000
Tractors	75,000,000	52,000,000	28,000,000
Vacuum cleaners	56,000,000	48,000,000	20,000,000
Farm machinery	31,000,000	25,000,000	13,000,000
Gas stoves	27,000,000	23,000,000	12,000,000
Mechanical refrigerators	16,000,000	14,000,000	11,000,000
All other goods	108,000,000	88,000,000	48,000,000
Total	$6,179,000,000	$4,541,000,000	$2,638,000,000

—*John J. Raskob. Industrial Management.* 73:66. *February,* 1927.

Installment selling up to this stage in its evolution may be credited with these social and economic contributions:

1. It has in many instances developed habits of thrift that have contributed directly to the recent disproportionate increases in savings of every kind.

2. It has permitted the buyer of limited means to gratify his longing for pianos, motor cars and other high priced family necessities and conveniences by payment from income instead of from capital. The urge for possession of motor cars in particular is, humanly speaking, so irrestible that many a family which buys its cars today without disturbing its nest egg would buy from its reserves and take a chance on replenishing them rather than do without. Of course no such output of motor cars as those of recent years would be possible on a cash basis, but if all that could be sold for cash had been sold for cash more people would have been impoverished in the process than under the time payment plans that have prevailed. . .

3. It is by no means certain that installment selling has, up to this time, injured any class of business. . .

4. In the automotive field—most often the target of the installment critics—employment and wages have kept at a peak on a steadily declining price basis, made possible by the economies of mass production which has been developed on its present scale largely through the influence of time sales. . .

5. Installment selling has made a great contribution to the contentment of farmers and industrial workers by enabling them to enjoy the use of conveniences and utilities which their income justifies but which on a cash basis they would perhaps never acquire for want of any definite saving plan such as the installment system provides. . .

6. Foreign students of our industrial system have pronounced the almost universal use of the motor car in this country as perhaps our greatest safeguard against Bolshevism, and no observer who has seen the vehicular exodus from any American workshop when the closing whistle blows will hastily dispute this point of view. . .

7. The longing to own such highly desirable property as installment sales have placed within the laborer's

reach is an incentive to productivity that cannot be ignored. . .

8. Following the thought expressed by President Coolidge, installment selling appears to one who sees it from within as far safer than the old practice of "running up a bill at a store."—*H. Bertram Lewis. Bankers Magazine.* 113: 167-9. *August,* 1926.

NEGATIVE DISCUSSION

"DOLLAR DOWN" SERFDOM [1]

There runs the tale of mining engineers in the Caucasus mountains who, after opening the mines, were nonplused at the refusal of the natives to work in the bowels of the earth at thrice their normal wage. Bidding up to ten times this wage and still failing to interest them, the engineers were desperate. One of their number, closer than the rest to the curious curvatures of the human spine, went to Paris and returned with trunks laden with female finery—ribbons, French slippers, corsets, silks, jewelry—which were offered at a small sum "down." The mines were in full blast in a month.

America is today entering a distinctly accentuated installment serfdom, alluring to the victim, grinningly understood in its true character as a manacle by the jailer. A total of approximately $8,000,000,000 is to be the 1925 figure of purchases on the installment plan in the United States. Ninety per cent of our automobile, piano and phonograph sales are on time payments; 85 per cent of our radio cabinets are bought on time payments, and 75 per cent of our washing machines, vacuum cleaners, kitchen cabinets and similar articles. The record rolls up most formidably.

Department stores are falling in line by offering installment terms for any and all kinds of merchandise, from a spool of thread to a trousseau; but they call it by the camouflaged, dignity-saving term of "budget making." The automobile sellers' recent great spurt in

[1] By J. George Frederick. *Independent.* 117:299-300. September 11, 1926.

sales by automobile producers and in the stock exchange valuation of their securities has been an artificial flaring up of the dying embers of market saturation, with the installment method as the fan and the bellows to the country's lust for cars. The market was senescent—something had to be done.

Public utility companies are offering five or six dollar electric irons on time payments—seventy-five cents down. You can even buy candy and nuts "on time" today. As for the credit clothing situation, it smells, so rotten is it. Large and small national chains of credit clothing stores live like leeches on the vanity and desperation of working classes, widows and the poor; with a "mark up" over cost of 100 to 200 per cent or more.

The economics of installment selling is far worse even than at first it seems. There is the seemingly harmless 10 per cent which is added to the normal cash price "for carrying charges." Fifty or 60 per cent of time payment merchandise, however, is extravagantly priced to begin with. Any blind and tongue-tied shopper can easily buy identical goods at lower prices than most installment sellers fix as "normal." Yet this 10 per cent is in itself a terrific tax—eight hundred million dollars a year, simply as a premium for the privilege of getting what you want six to twelve months ahead of the time when you can pay for it!

This is but a beginning of the tribute exacted from the installment serfs. A former college professor, now a business man, who opposed his employer's plan to sell on an installment basis, figured out the *real* rate which time payment serfs have to pay. He uncovered the joker which the public usually fails to see, but which makes fat profits for the credit companies which deal in installment obligations. When you buy something costing $110 "on time," you pay something "down"—$10, let us say. That reduces your principal, and every payment you make during the year similarly reduces it, so that at *no* time in the year do you owe the full price. There-

fore, at no time are you paying as little as 10 per cent, since logically this percentage charge could only be applied to what you owe, *pro rata,* for the time period that you owe it. Thus figuring, the ex-professor showed his firm that they would *really* be charging their customers about 24 per cent for the time accommodation! This would apply to the greater proportion of time payment buying, and would mean that the people of the United States during 1925 will have paid almost two billion dollars solely for the privilege of possessing something before they have its purchase price in hand.

Such are the intricacies of economics, however, when psychologically considered, as a modern economist must, that it is easy to play false light upon this installment situation. Banking statistics do not indicate dangerous inflation in bank loans, and it is hardly safe to conclude that the two billions are altogether waste. The incentives to increased production of wealth, and the productive uses to which the purchases were put would have to be measured; but this is hardly possible.

The grinning nigger in the woodpile is the compulsion to greater effort which installment purchasing lays upon the individual; the brake upon the willingness to strike; the treadmill of extra-heavy duty which it imposes. Wisely, indeed, the various labor leaders have warned against installment buying, for it delivers the workman to his employer swathed in the tightly binding bandages of payment-due dates. He must work, not only to live, but to hold his possessions. If he doesn't make the payments regularly, he must forfeit the goods, together with all his payments. To strike thus means not merely loss of current income, but possible loss of automobile, radio, vacuum cleaner, piano, phonograph, kitchen cabinet, furniture, if not house—all of which are time payment purchases. He may even lose payments on company stock; which may help explain the reluctance of the United States steel corpora-

tion's employes to strike, since forty thousand of them buy its stock "on time."

Manufacturers—both as employers of labor and sellers of goods—favor the installment idea. It "stabilizes" labor: when men are in debt they work to get out, is the theory in the crude; so let's keep them in debt! It is not a new theory. It is the foundation, for instance, of the peonage system in Mexico and other countries. On the selling side, the manufacturer is equally sure of his ground. A famous manufacturer has admitted to me that he would rather make a sale on installment than for cash; he makes more money on the installment sale. Why not?—he can get 24 per cent from the installment buyer for the credit accommodation, and he can borrow money at 3½ or 4 per cent interest to carry the load. Even after deducting the costs of collection he can thus make 12 or 15 per cent clear. If the American people are so ridiculously foolish as to be willing to pay usury, in the modernized form of installment buying, why not let them?

The owning of merchandise before you have its purchase price cannot, with some exceptions, be so profitable as to justify the annual two-billion-dollar premiums it entails. As a matter of fact, the orgy of installment buying is largely confined to luxuries; to nonproductive goods. A large company making heating plants some time ago decided that if it was logical to buy radio sets or clothing on credit, it certainly was logical to buy a heating plant that way. But to their surprise, the public was rather indifferent to the idea; it was far more thrilled at buying fur coats, jewelry and automobiles "on time." Obviously, the pleasure-giving and vanity assuaging purchases are the greatest objects of popular time payment interest. What a rush there would be if marriage matches with European nobility could be bought on time payments!

The economic arguments advanced in favor of installment selling are mainly fallacious as the idea that

it "makes possible mass production." Mass production was an established American principle long before installment selling became a hectic vogue. The argument that it "keeps production going" is equally specious, for it cannot be a permanent stimulus. Installment buying is only a whiplash to spur flagging desires: desires which previously had not been powerful enough to impel saving of the purchase price. There is no quarrel, economically, with purchase on a time payment basis of *productive, useful goods costing considerably more than an immediately available sum.* It is done by sound business men constantly. But there is so much debatable ground as to such usefulness and productivity, and so large a number of items that can be included if one is free and easy in one's interpretation, that a sense of financial soundness is easily lost in the lure of "a dollar down." Even now a further snap of the whip on desire is being applied by a policy of *"nothing down"!*

E. A. Filene mentions hearing of a man and wife with an income of sixty dollars a week who had bound themselves to pay seventy dollars per week—and quite without guile, too! There is needed a brake upon the installment selling propaganda, for business reasons as well as for reasons of sound character influences. Installment buying, as a habit, is enervating to character because it leads straight to serfdom. If anything is un-American, surely that is!

INSTALLMENT BUYING AND ITS EFFECT[1]

In a recent statement, Mr. George R. James, now a member of the Federal Reserve Board, warned against the "morphine of credit." No one will question that opiates have their place in the medical world, but a practitioner of standing is careful in their use, and knows

[1] By James Couzens, United States Senator. *North American Review.* 224:78-83. March, 1927.

how easily the drug habit is contracted, and the after effect of too large, or too frequent doses.

Sound credit practices need no defense, but there should be a factor of safety for the protection of the user.

As in the case of a builder, who should have his tenants in mind, the installment seller should have the interests of the buyer in mind. State and municipal governments do not altogether trust the builder. They provide certain building codes to protect the owner. In the case of installment buying, unfortunately, no such protection is possible.

It was not long ago that to run in debt was considered socially bad. It injured one's pride to be in debt, especially for the things used in the home. We have now dignified debt by calling it "consumer credit." There always was and still is sound consumer's credit, but the present high-power salesmanship has caused the extension of this consumer's credit to have an entirely different meaning. It results in many of our people impoverishing themselves in this day of greatest prosperity by flinging away every principle of sound thrift to follow this false mirage of consumer's credit. All the euphemisms to the contrary, it is just plain "running in debt," and the more this idea is kept to the front, the healthier for everyone.

Many protagonists of consumer credit write clever articles perhaps sincerely, but led astray by the urgency of their own welfare and the advancement of the interest entrusted to them. We must consider whether such a person is able to give an unprejudiced opinion, or expresses reactions which events and conditions create in him. It is equally true that we must know the general qualifications of a critic of this orgy of installment buying: his general knowledge and his experience.

It is admitted by able economists that there are no really authentic statistics relating to this subject. I will not attempt to seize the many estimates bearing upon

the volume of installment sales and present them here, but those who are interested in estimates can find plenty, although none can be verified.

There never was an inflation or financial orgy that was not stoutly defended and speciously explained, right up to the very moment of trouble. There are none so blind now that cannot see the follies of 1925 which occurred in the Florida situation. Merchants confess they are beginning to repossess more and more goods because of non-payment.

This pledging of wages and salaries long in advance of having been earned is doing great harm, to young men and women in particular. It is breaking down character, and resistance to temptations, to extravagance and to living beyond their means. It is in many cases breeding dishonesty. Many young people get their first experience of being "dead beats" through yielding to temptations that are placed before them. Many a clerk that should be saving his "nest egg" is making payments on a car he cannot afford. Many a family is paying installments on radios and phonographs, who should be saving for old age or for periods of illness and misfortune. Many a working man, clerical or shopman, if laid off at the end of the month would not be able to meet the next month's installments on his purchases.

Governor Fuller of Massachusetts, in writing a Thanksgiving Day proclamation, protested against the self-indulgence of the present generation. He feared that the hand of fate may strike from us our legacy of extravagant leisure and force us to think more of things we have forgotten, like truth, duty and sacrifice.

There are two incidents in my boyhood which present themselves forcibly. I recall that about forty years ago our whole family saved for some time to enable my father to purchase an oil hanging lamp for the living room. We anticipated possessing this lamp and had great joy in purchasing it after we had saved enough.

Again, my father owned horses, not riding horses but truck horses, and I wanted a riding saddle for one of them. To secure this I was required to sell enough of my father's product on a commission basis to earn the price of the saddle. I shall never forget the joy of accomplishment when that end had been gained.

All of this pleasure, this appreciation of something gained, this opportunity to develop the traits of self-control and perseverance, this opportunity to build character, are now being lost to the young people, because what they want they can nearly always get at once, without sacrifice, for a small down payment.

Admission is made of unsound practices in 1925, but it is asserted by finance companies that such mistakes are being corrected. Mr. J. H. Tregoe, executive manager of the National Association of Credit Men, made the statement that "Frequently innocent and perfectly laudable devices for the increase of distribution grow unconsciously until they become a dangerous menace. . . The whip handle in credit is held by him who has commodities to sell or funds to loan, and not by him who will exchange his credit for the commodity or the funds."

Unwise selling means that in uncertain times, followed by unemployment, not only would our large volume of sales diminish, but the slow moving inventory would be increased by heavy repossessions, which in their turn would have to compete with the new merchandise in hand.

I have had some opportunity to observe the buyer's experience. In one middle western city of about one hundred thousand population, a banker reports that there are two thousand homes bought on installment for which the buyers are in arrears. Yet this is the most justifiable form of consumer credit. One small company in Detroit built sixty houses and sold them on the installment plan. Fifty-one buyers are behind in their payments.

Every dollar the consumer pays for interest reduces his ability to buy merchandise. Every dollar sent out

of the community to some finance corporation lessens the purchasing power of that community.

One large organization made the following statement: "Investigation has disclosed the fact that on the average in any community, 10 per cent of the people buy for cash, 30 per cent on charge account, and 60 per cent must buy on easy convenient terms." They contend that this is an argument for installment selling. If earnings must be mortgaged at excessive interest rates, it seems clear that some action should be taken.

Mr. Henry Ford was recently quoted in a Detroit paper:

> There is too much debt for one thing; too much installment buying. We must learn to call credit by its real name—debt. . . When financiers flourish on credit, you may depend on it that plenty of other people are withering under debt. . . The American home needs better business management. It should keep solvent and liberate itself from the pressure of high-powered salesmanship reinforced by the installment lure. . . Let the American home manage its affairs wisely and the country will be all right.

A well-informed sales manager of eleven years' experience told me: "One outstanding fact lately noted is the increasing number of people who buy carelessly, satisfying every present whim of the appetite, without regard to the relationship of the obligation to their income and needs. These people, whatever their original intent, come to regard their debts more lightly as they become more burdened."

I manufacture, for example, a sideboard. I create a desire for it, and then inform my prospect that it took eight days to manufacture it. I then offer him the opportunity to labor eight days and promise to deliver the sideboard to him after that time. Then, he is not illusioned. On the other hand, if I told him he could have it now, in advance, provided he would work twelve days for it, explaining that the four extra days are to compensate me for interest and carrying charges, then it is an unfair barter, and I am simply trading on his cupidity and impatience of the moment.

Let us take the relationship between installment buying and pawnbroking. The one is the converse of the other. When the moneyless man pawns an article for a fraction of its worth in cash, he sacrifices the value of the article and assumes a usurious obligation to recover it, with the penalty of losing it upon default. This he knows, and he is better off because there is no glossing over the transaction. Yet, the same man will sacrifice the value of his cash (which yet must be earned) because of his impulsive desire to possess an article not of commensurate worth. When a man puts his income "in hock" at a usurious rate in order to gain an article he might do without, it is ridiculous to pretend that he is following sound economics.

It is not intended to decry what perhaps ought to be called installment investing, such as the buying of homes, sound securities and articles on which the buyer can earn a return. The slavery to which these over-extended buyers have subjected themselves does not receive much consideration. Many men have opportunity to change their position and thereby advance themselves, but are afraid to do so because they have so many installment obligations. Many men have an opportunity to make a small investment, but they cannot do so because they have installment obligations. Between twenty-three and twenty-four years ago there was a group in Detroit, of which I was one, who had an opportunity to invest some money in the Ford Motor Company. Had we been tied up with obligations to pay for bicycles or pianos on the installment plan, we could not have availed ourselves of this opportunity with its well known results.

Many investigations and studies are being made which may produce a mass of statistics, but I submit that none of these investigations will cover the viewpoint or the experience of the buyer; they will all be the experience and results of the seller. There is no way of going into the conditions of hardship, trial and suf-

fering of people who have over-bought on the installment plan. No statistics on this will be available, but from a study of a cross-section of the people which I have had an opportunity to observe, the situation is very much worse than it should be.

The cost of this installment selling to the buyer is not understood, because there are so many methods of covering up the difference between a cash purchase and an installment purchase. And yet, many concerns charge the same price by either method. A senator told me the other day that he wished to buy a set of books, and not caring to be bothered by the publisher, he had his secretary write to ask the cost. The price was given, with all of the installment veneer. The secretary wrote back and inquired the price for cash: the reply came that the price was the same for cash. In other words, the publisher could not afford to disclose, when he was selling mostly on the installment plan, what the real difference was between a cash and an installment sales transaction.

Who maintains the overhead and expense, and creates the profit for the large number of finance companies? The buyers, of course. Mr. Clarence Y. Palitz, president of the Credit Alliance Corporation, stated in New York recently: "There are more than fifteen hundred organized finance companies and more than twenty-five hundred individuals dabbling in the finance business."

On the last day of the old year the press told the story of the organization of a $31,000,000 company to be national in scope, for financing installment houses. This large finance corporation will make money. Who will supply the profits? The installment buyer. In the announcement of the organization of this company it was said, among other things: "We have also found evidence of abuse in the methods of deferred payment sales which, if allowed to continue, will result in los-

ses to the public, banks and the credit finance companies." Nearly all of these proposals are intended for the protection of the seller. Thousands and thousands of people are employed by and making a living out of these finance companies. They return substantial profits on the enormous amount of money invested. Who pays it? The installment buyer.

There was published recently by *The Portland Oregonian,* a survey of the United States on installment buying which contained astonishing results. The share of workingmen's future wages mortgaged for purchases on the deferred payment plan was 39 per cent. Who has obtained the viewpoint and experience of this 39 per cent of the workingmen? No one. The sellers could tell of their heart-rending experiences with many of these buyers. But that would injure their business. Another striking outcome of this survey was that of the total, 28 per cent went for homes, 35 per cent for automobiles, 9 per cent for clothing, and 18 per cent for furniture, washing machines and household necessities. Thus it will be observed that nearly twice as many people buy automobiles on the installment basis as buy household equipment.

From the standpoint of character, sound economics, honesty and integrity, the weight of argument is overwhelmingly in favor of restricted selling on the installment basis.

THE RISING TIDE OF TIME PAYMENTS[3]

There have been numerous reports that a government investigation of the entire subject of the selling on a time payment basis is under way.

Calls by a *Printers' Ink* representative on all of the government organizations likely to conduct such an investigation, however, have failed to reveal any effort

[3] By James True. *Printers' Ink.* 126:3-4. February 28, 1924.

that would justify the announcement. These interviews, nevertheless, produced a number of facts and authoritative opinions that may, when logically arranged, throw some light on a condition that is considered ominous by many.

A complete government investigation of any phase of the retail business of the country undoubtedly would be conducted by the Division of Domestic Commerce, of the Bureau of Foreign and Domestic Commerce; but while the members of the division are evidently much interested in the subject, their information regarding it is in the nature of a by-product, and they are unwilling to express anything officially but their interest. Likewise, the automobile, housing and other divisions of the bureau have made no special effort to investigate the extent of time payment purchases in their industries.

A similar condition prevails in the seven governmental divisions and other organizations visited, and in several large commercial associations with headquarters in Washington. And while the chiefs and their assistants did not consider that the facts warranted them in talking for publication, the consensus of all was that the prevailing interest in the development of the time payment system is very much greater than the importance of the subject justifies. As one economist who has spent many years in the retail field expressed it:

> The cost of a complete survey would be very great and, when completed, would be of comparatively little value. An investigation of the extent of the system in the retailing of two or three lines would be interesting; but it would be practically valueless because it would not give a basis for comparisons. We now know that the time payment business has increased rapidly in many lines during the last eighteen months, and that there are two principal dangers connected with its development.
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> The first of these, and undoubtedly the greatest, is the tendency of retailers who offer time payment propositions to compete with each other on liberality of terms, rather than on quality and price of their merchandise. This creates a disturbing element in retail merchandising; but it is temporary, as a rule, and rights itself with the ultimate costs assessed against the retailer.

The second danger is an outgrowth of the first, and results from a too general and persistent promotion of time payment selling. Several communities have suffered a reaction from this cause, and it invariably results from extending liberal credit to market a large volume of goods, the majority of sales being made to people who cannot afford to take care of the payments.

Invariably, credit must be paid for, and the public knows that it pays for credit. An abnormal demand for high-priced goods is inevitably followed by the reaction of depression. We had an excellent illustration of the working of this economic law soon after the war. And now, during a period of high wages, if retail sales are abnormally stimulated by the offering of loose credit, since credit materially increases the prices of goods, reaction will begin with the first general reduction of wages.

Then will follow a decline of the public's purchasing power, which will lead to a slowing up of production, followed by increasing unemployment, which gets us back to wages. It's the familiar old vicious circle. And it is obvious that if a very large part of the country's retail business is on a long-time credit basis the decline will be more rapid and disastrous than it will be if cash and short-time credit systems prevail.

However, there is no serious cause for alarm in the present conditions. High wages and regular employment tend to increase credit business because they make credit good. If the time payment system were new, and had developed to its present proportions within the last two or three years, we could look upon it as a serious factor in retail merchandising; but its growth has covered a long period and, for the last thirty years at least, the volume of goods retailed on long-time credit has gradually increased with, of course, a tremendous increase caused by the recent entrance of the automobile into the field.

Despite this reasoning, alarm has been expressed in many quarters. Recently, Sol Schloss, president of the National Association of Retail Clothiers and Furnishers, was reported to have said that the installment plan of selling was harmful to industry, and that he believed the only solution of a very serious condition would be for all branches of legitimate industry, from the bankers on down, to enter collectively into a campaign of education in order to save the "victims."

An association in the field of women's apparel is also reported to be seriously concerned, with an investigation of the extent of the time payment business in its industry under way. Several trade journals have started cam-

paigns to educate their trades against the evils of the system, and while most of their articles feature the supposed dangers of automobile time payment selling, they are just as much concerned with the increasing number of products offered on the plan.

To find an indication of the extent of the variety of goods being sold on time payments, another Washington economist recently checked the advertisements in twenty-seven newspapers in as many cities of the country. From November 11 to December 20, last, he found that these papers published 141 advertisements which made a direct appeal for time payment sales on the following products:

Furniture	Radio equipment
Pianos	Violins
Used cars	Cedar chests
Clothing	Silverware
Washing machines	Kitchen cabinets
Stoves	New automobiles
Rugs and carpets	Typewriters
Jewelry	Diamonds
Phonographs	Vacuum cleaners
Sewing machines	Lamps
Women's apparel	Candy and nuts
House furnishings	Gifts
Safes	Trucks

Unfortunately, no record was made of lineage and prices, and no comparisons were made with the advertising of other goods. A subsequent check of the same papers during January showed that the volume of time payment advertising fell off slightly after the holidays, but that there was no decrease in the variety of goods offered.

Most of the recent articles on the subject attempt to prove that the great volume of automobile business is the principal cause of the interest in and fear of the time payment system. One writer, in a series of articles, based a large part of his argument against the system on the statement that last year the sales of automobiles on time payments reached a total of $1,520,000,000, and that 85 per cent of all automobile sales were on time

payments. But investigation shows that these figures are not reliable, and that with all estimates of the kind one man's guess is as good as another's.

The National Automobile Chamber of Commerce reports that the total wholesale value of the cars produced last year was $2,243,385,000. About 8 per cent of the cars were exported. Hence the retail value of the cars produced and sold in this country was something over $2,500,000,000.

For many months the Automobile chamber has been attempting to determine, with some degree of accuracy, the extent of the automobile time payment business, but without the slightest success. Only three of the finance companies operating in the field make reports: the General Motors Acceptance Corporation, the Continental Guaranty Corporation and the Commercial Discount Company. There are about six hundred other time payment finance concerns in the country, and local banks handle a large share of the volume.

More than a year ago the Federal Reserve Board began a survey of the time payment automobile business, but was compelled to give up the work. The board sent a questionnaire to each of all the recorded finance companies operating or specializing in the field · but only about twenty of them replied, and their reports were not complete or specific enough to furnish even reliable indications.

Another expert in the retail field pointed out the fact that for ten years or more, until the time payment system became general in the business, there was a great deal of fear expressed because people were borrowing money with which to pay for automobiles. In 1914, he said, one of the largest makers of cars reported that about 75 per cent of the cars sold by his factory branches were bought by people who mortgaged their homes to make the purchases. And from the statements of this economist and the others interviewed, the following is summarized:

The great and sudden development of time payment automobile sales was brought about by the substitution of personal for secured credit. The time payment credit is paid for both in interest and a "carrying charge." The extension of the system increases the carrying cost, and when this cost goes beyond a certain limit a large part of the public will find it advisable to save up their money and pay cash for their automobiles. Hence the business will tend to adjust itself during normal times; but a slight general depression would precipitate a serious depression in the automobile or any other industry where long time credit largely prevailed.

Many large retailers of clothing and women's apparel have expressed the fear that since the people are spending so much for the purchase of automobiles, they will spend an abnormally small amount for clothing and other necessary goods. The natural way to meet such competition would be to offer better values, and to find ways and means of diminishing the merchandising spread; but many retailers are attempting to meet the condition by offering long time, dangerous credit terms.

During the last year a number of department stores opened deferred payment departments, and clothing stores in practically every city in the country adopted time payment systems. The usual method employed is to accept a down cash payment on a bill of goods of from 10 to 25 per cent of the total purchase price, and then arrange monthly or weekly payments covering a period of from six to twelve months, with interest at the rate of 5 or 6 per cent.

In stores of this kind the system is unsound for two reasons. As a rule, the depreciation of the value of the goods is greater than the payments made, hence the goods themselves are not security for the unpaid balance. And the interest charge does not pay the cost of extending this kind of credit.

Soon after he adopts the system, any retailer will find that he must increase his prices to take care of

the extra cost which the recipient of the credit does not openly pay for. And the economists consulted are agreed that, given sufficient time and normal business conditions, competition will adjust the giving of long time credit in the clothing and department store fields. Furthermore, they are of the opinion that a rapid expansion of time payment credits would injure the classes of stores involved, but that it would not tend materially to retard the general retail business.

At least one large retail concern, a department store in Detroit, has adopted a safe and logical method of meeting the time payment competition. When a customer requests the installment plan she is taken to an officer of the company, who explains that it would be impossible to sell the store's goods on time payments without increasing prices. He also shows the customer that the cost of carrying the credit must be included in the price, and then suggests to her that she borrow the money at the Morris plan bank arranging to pay it back in installments. In most instances he is able to prove to the customer that this is the most economical way of securing long time credit. The store sends a representative to introduce the customer at the bank, and in the majority of instances the loans are arranged. The customers have the convenience of long time credit, and the store gets cash for its goods.

If a dealer is encouraged to adopt a time payment system he should remember that practically all sales of automobiles made on time are financed by companies organized for the purpose, and not by the dealers. Another important fact seldom considered in discussions of the subject is that all of the goods successfully sold on time payments in the past, such as furniture, pianos, talking machines and household specialties, give the retailers a profit sufficiently large to absorb a reasonable credit loss. Furthermore, furniture, pianos and the like, returned for non-payment after three or four months or longer, are frequently resold at almost full price.

In the automobile field, reaction against the time payment system seems to be setting in. While two large manufacturers of cheap cars are apparently encouraging time payment purchases, at least one large manufacturer is advertising that his cars are sold only for cash, and is featuring the high quality and value offered on a cash basis. During the winter, in a number of cities, dealers in used cars found that low cash prices would move their stocks when liberal time payments offered on higher prices left the cars on their floors.

Objectors to the time payment system almost invariably claim that its development interferes with the compilation of statistics, since it mortgages the future for present sales. . .

While there is considerable opposition to the system on the part of several associations, the National Lumber Manufacturers Association recently began a campaign of education among lumber dealers to increase the selling of home building material by the time payment financing of second mortgages. This plan is extensive; but it is based on general information, since even in the field of home buying very little is known as to the extent of time payment purchases.

The total business of the building and loan associations has been estimated with fair accuracy; but this is a small and unknown part of the country's total business. The Bureau of the Census compiles statistics regarding the mortgaged property in the various states and the country as a whole; but there is no way of telling from its statistics what percentage of the mortgages represent the time payment purchases of homes.

So it is impossible to collect more than a few facts concerning any important phase of the time payment system. The entire subject is vague, and it can be best summed up probably, so far as its present development is concerned, by the words of one of the men consulted, an economist who has spent much time and effort in the retail field. He said:

Writers on the subject generally assume that all of the automobiles sold on time payments are in the luxury class, and we know that they are mistaken. Many people who can afford to pay cash are buying cars on credit because credit is still reasonably cheap, and are using their cash money for other purposes. Many automobiles are also sold on time to salesmen, professional people and merchants, for business purposes.

We know that the extent of this business in the automobile retail field is very large, and that . . . retailers in many lines, assuming that money is going for cars which they should have, are attempting to compete on a long time credit basis, and that any competition not founded on commodities, qualities, service and price is demoralizing and dangerous to those who engage in it. The only safe way to meet the condition is to offer better and more attractive values, and advertise them more extensively. We also know that the selling power of long time credit rapidly decreases as its cost increases. And that's about all we do know on the subject. If you want me to give you any very much more definite information you'll have to come back to see me in about two years.

BRIEF EXCERPTS

No one can successfully deny that "easy terms" are responsible for most of the ills in our industry.—*Charles Cochrane. Inland Printer.* 75:761. *August,* 1925.

The vendor of pay-as-you-please merchandise faces many problems unknown to his cash sale competitors.—*E. H. Brown. Nation's Business.* 15:164. *April,* 1928.

That there is grave danger of insidious inflation by discounting the future beyond reasonable bounds cannot be successfully denied.—*Alex Dunbar. Bankers Magazine.* 113:78. *July,* 1926.

A market of installment buyers is one of the most difficult of all markets to analyze, and at best it is likely to offer poor promise of future sales.—*James E. Moffat. Bankers Magazine.* 112:227. *February,* 1926.

The gravest danger is the power of *oversales persuasion* on the part of producers for a quick clean-up, on

the erroneous theory that tomorrow will take care of itself.—*Alex Dunbar. Bankers Magazine.* 113:79. *July,* 1926.

If America finds itself in a position where earning power is curtailed, commodities will then be bought for cash, to the detriment of the obligations incurred through partial payment commitments.—*Alex Dunbar. Bankers Magazine.* 113:12. *July,* 1926.

Credit is an asset which, to be valued properly, must be earned. To bestow it promiscuously will insidiously weaken the moral fiber of the nation, because "what is easily got is lightly treasured."—*Alex Dunbar. Bankers Magazine.* 113:13. *July,* 1926.

It is obviously unwise and certainly uneconomic for America to proceed to discount its future earning power for indefinite periods in advance. It is a delusion to conclude that true prosperity is based on consumption today of merchandise to be paid for from future and problematical earnings.—*Alex Dunbar. Bankers Magazine.* 113:12. *July,* 1926.

The installment sale is no longer confined to what are ordinarily classed as durable goods; and even where the element of durability is present, there are many lines of goods which could be resold only at a disastrous reduction because of the stigma attached to the second-hand article.—*James E. Moffat. Bankers Magazine.* 112:223. *February,* 1926.

The bankers concur with the conservative opinion of industry that the present tendency in various installment lines to reduce initial payments and to spread subsequent payments over longer and longer periods, in an effort to maintain volume of sales, will precipitate trouble

by exhausting markets, with resultant unemployment and industrial depression.—*Alex Dunbar. Bankers Magazine.* 113:12. *July,* 1926.

With the installment sale the real waiting is done, not by the buyer, but by the seller. The effect upon the seller in the individual instance will of course be determined by the number of installments and the time allowed. But in all cases the danger of frozen credit is in evidence, and under certain conditions the possibility very quickly becomes a reality.—*James E. Moffat. Bankers Magazine.* 112:223. *February,* 1926.

On a Market street store, in Philadelphia, recently, I noticed a large sign reading: "Dress in style—Pay as you earn." Now if that sign means anything, it means "Buy the newest thing. Buy another new thing every time the style changes. Don't consider its utility or serviceability. Don't mind whether you have the money to pay for it or not. Pay for it out of what you are *going* to earn."—*George W. Norris. Printers' Ink.* 137:105. *October* 14, 1926.

Good business today suggests good business tomorrow. But note the fallacy when this line of reasoning is applied to installment business. When purchases are made on the installment plan, a sale today does not promise a sale tomorrow. The fact is that in altogether too many instances the effect is just the opposite, and a sale today tends to make a sale tomorrow unlikely, if not impossible.—*James E. Moffat. Bankers Magazine.* 112:225. *February,* 1926.

Let it be broadcast to those who are in undue haste to pluck tomorrow's profits today, that the ultimate financial destiny of America is in the factor of safety through reserves created for the unexpected contingencies of life and for our posterity's capital account. Let

it be known that he who, for profits, perverts this great American desire for a *safe tomorrow* by unwise fanning of natural desires for possession, is an *economic traitor* to his country.—*Alex Dunbar. Bankers Magazine.* 113: 79. *July,* 1926.

Whether this plan of selling is actually creating a new type of criminal, or merely causing professional dead-beats to shift from former fields worked to the point of sterility to this new and highly lucrative opportunity, remains in doubt. Certain it is, however, that the purveyor of installment merchandise who permits his goods to pass from his hands upon the payment of a fractional part of their value continually courts disaster, and, like anyone who hunts trouble, frequently meets it.—*E. H. Brown. Nation's Business.* 15: 164. *April,* 1928.

In its effects upon future demand, a lien upon future income such as the installment plan represents is, in the majority of cases, worse than an ordinary mortgage on real property. In the case of real estate, the mortgaged property is normally assumed to, itself, furnish a means of providing partly or wholly for the future obligation. But with the installment sale, as applied today in various lines of merchandising, the possession and use of the article frequently tend to lessen rather than to increase the current income of the purchaser.—*James E. Moffat. Bankers Magazine.* 112: 224. *February,* 1926.

The installment seller encounters a disability from the losses which are concealed under that innocent sounding word "re-possessions," but that these are a real "grief" to be reckoned with may be gathered from Mr. Henry Ford's published statement that:

"Of the total 1926 production of automobiles of all makes, 10 per cent or more were re-possessed by the sales agencies for non-payment." To which disconcerting fact Mr. Ford adds this significant opinion:

"Under installment selling, the seller doesn't get the money and the buyer doesn't own the goods."—*H. A. Haring. Advertising and Selling.* 8:78. *February* 23, 1927.

Over-optimistic buyers, finding their contracts burdensome, have undertaken to meet their obligations on the contracts by extending the time on their open accounts. No one knows except the grocer on the corner that the bills are not being paid there. Moreover, due to the unusual efficiency of the finance companies, collections are more prompt, more forced on these installment contracts than they are by the local grocers, and in the case of my own grocer in Seattle, he tells me that he has never had as great difficulty in all his twenty-two years of experience, keeping his accounts current and up to date as he has at the present time, and this in spite of the appearance of great prosperity.—*Carl S. Dakan. American Bankers Association Journal.* 18: 674. *April,* 1926.

This year I pledge my income for months ahead to purchase immediately the things I want. I do not pledge more than I can pay; I even save something. Still, I cannot repeat the process next year because I am still paying for the things I have already bought. New purchasers must be found. But there is an end to new purchasers. There is an end to the expansion of personal credit. The factories geared up to satisfy all our needs in one year, plus the new factories which expect to exploit us, may come to a year when they must slow down because they cannot extend more credit. The growth of trade has been artificially speeded up

faster than the growth of popular purchasing power; personal credit is inflated; there may be a crash.—*New Republic.* 42:309. *May* 13, 1925.

There are obvious reasons why credit cannot be extended indefinitely. Germany was the last nation that tried the experiment, and the results are well known; the installment credit certainly is one of the most insidious forms of inflation. It has been estimated that there is outstanding at the present time some five billion dollars. The lien against the future is approximately one-quarter of the total savings of the people of the United States. It follows, of course, that while we have been accumulating this enormous amount now outstanding, business has been stimulated, the purchasing power of the American people has exceeded their current income by the amount of this five billion dollars, but the time will come when a halt must of necessity be called. —*Carl S. Dakan. American Bankers Association Journal.* 18:674. *April,* 1926.

There is a serious menace in the manner in which installment buying tends in a sense to set utterly false standards of living. The members of the modern American family, both young and old, are greatly influenced in their expenditures by their neighbors' habits of consumption. Consciously or unconsciously they direct their courses and form their habits according to the accepted policies and actions of the other members of their social groups. Under normal conditions this is as it should be, simplifying as it does many of the problems in the field of social control. But what of the effect when the individual's judgment is influenced by neighbors who have acquired the habit of installment buying? In this case the judgment may become hopelessly distorted, being determined not by what the neighbors own, but by what they have in their posses-

sion.—*James E. Moffat. Bankers Magazine.* 112:225. *February,* 1926.

The installment plan undoubtedly tends to break down credit morale. The seller sooner or later finds himself yielding to the temptation to take long chances, and thus enters the thin edge of the wedge for loose business methods generally. In many cases the seller is not aware of the seriousness of the risks he is taking. The chronic installment buyer secures different articles from different sellers, and thus the individual seller finds it difficult if not impossible, in the ordinary course of business, to check up on the obligations a prospective buyer has already assumed elsewhere. It should also be remembered that the overbuying which so frequently results in this way has a serious effect upon the seller's good will. When a customer overbuys he naturally finds it difficult to meet his payments as arranged; and in most cases the transaction is likely to prove unprofitable to the seller regardless of the outcome. If the buyer fails to pay there is friction, delay and loss for some of the parties concerned; if he is forced to pay, it is at the cost of his good will.—*James E. Moffat. Bankers Magazine.* 112:224-5. *February,* 1926.

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